

# NOTICE OF MEETING



## EXTRAORDINARY AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING

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

Venue	Conference Room, Station Street, Mullumbimby
Date	Thursday, 21 October 2021
Time	2.00pm

Vanessa Adams  
Director Corporate and Community Services

*I2021/1645  
Distributed 14/10/21*

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## CONFLICT OF INTERESTS

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**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)

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## RECORDING OF VOTING ON PLANNING MATTERS

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### 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**  
**BUSINESS OF MEETING**

**1. APOLOGIES**

**2. DECLARATIONS OF INTEREST – PECUNIARY AND NON-PECUNIARY**

**3. ADOPTION OF MINUTES FROM PREVIOUS MEETINGS**

- 3.1 Adoption of Minutes from Audit, Risk, and Improvement Committee meeting  
of 19 August 2021..... 5

**4. STAFF REPORTS**

**Corporate and Community Services**

- 4.1 Proposed ARIC Work Plan for 2022 ..... 18  
4.2 Office of Local Government - Risk Management and Internal Audit for Local  
Councils in NSW: Guidelines ..... 24  
4.3 Draft 2020/2021 Financial Statements..... 151

**ADOPTION OF MINUTES FROM PREVIOUS MEETINGS**

**Report No. 3.1      Adoption of Minutes from Audit, Risk, and  
Improvement Committee meeting of 19  
August 2021**

**Directorate:** Corporate and Community Services

**Report Author:** Alexandra Keen, Audit, Risk & Improvement Coordinator

**File No:** I2021/1452

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**RECOMMENDATION:**

**That the minutes of the Audit, Risk and Improvement Committee Meeting held on 19 August 2021 be confirmed.**

**Attachments:**

1      Minutes of ARIC meeting 19 August 2021, I2021/1313 , page 9 [9](#)

# BYRON SHIRE COUNCIL

## ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

3.1

### Report

The attachment to this report provides the minutes of the Audit, Risk and Improvement Committee Meeting of 19 August 2021 .

### Report to Council

- 5 The minutes were reported to Council on **Comments**

In accordance with the Committee Recommendations, Council resolved the following:

**21-390**      **Resolved** that Council notes the minutes of the Audit, Risk and Improvement Committee Meeting held on 19 August 2021 at Attachment 1 (I2021/1313).

**21-391**      **Resolved** that Council adopts the following Committee Recommendation:  
  
Committee Recommendation 3.1.1  
  
That the minutes of the Audit, Risk and Improvement Committee Meeting held on 20 May 2021 be confirmed.

**21-392**      **Resolved** that Council adopts the following Committee Recommendation:  
  
**Report No. 4.2 NSW Auditor-General Annual Work Program 2021-2024**  
File No: I2021/1292  
  
Committee Recommendation 4.2.1  
  
That ARIC note the NSW Auditor-General's Annual Work Program for 2021-2024 (#E2021/100974).

**21-393**      **Resolved** that Council adopts the following Committee Recommendation:  
  
**Report No. 4.4 Delivery Program 6-monthly Report and 2020/21 Operational Q4 Report - to 20 June 2021**  
File No: I2021/1234  
  
Committee Recommendation 4.4.1  
  
That the Audit, Risk, and Improvement Committee notes the Delivery Program 6-monthly Report and 2020/21 Operational Plan Fourth Quarter Report for the period ending 30 June 2021 (#E2021/97874).

# BYRON SHIRE COUNCIL

## ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

3.1

**21-394**      **Resolved** that Council adopts the following Committee Recommendation:

**Report No. 4.5 AASB1059 - Service Concession Arrangements:  
Grantors**

File No: I2021/1241

Committee Recommendation 4.5.1

That the Audit, Risk and Improvement Committee consider the requirements of AASB1059 Service Concession Arrangements: Grantors and concur with the view that the requirements of AASB 1059 have no application to Byron Shire Council and therefore no disclosure obligations in the financial statements.

**21-395**      **Resolved** that Council adopts the following Committee Recommendation:

**Report No. 5.1 Internal Audit Report - June 2020-21**

File No: I2021/1192

Committee Recommendation 5.1.1

That the Audit, Risk and Improvement Committee:

1. Notes the Internal Audit Status Report – June 2021 (#E2021/95033)
2. Endorses the recommendations from the Executive Team to close off 10 recommendations in Appendices A and B of the Internal Audit Status Report (#E2021/95033)
2. Requests management to implement the recommendations made in the Internal Audit of Procurement (Tendering) – June 2021 (#E2021/76376)

**21-396**      **Resolved** that Council adopts the following Committee Recommendation:

**Report No. 5.2 Internal Audit Plan 2021-2024**

File No: I2021/1096

Committee Recommendation 5.2.1

That the Committee endorses the Internal Audit Plan for 2021 - 2024 (#E2021/97611) for approval by Council.

**21-397**      **Resolved** that Council adopts the following Committee Recommendation:

**Report No. 5.3 Risk Management Update**

# BYRON SHIRE COUNCIL

## ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

3.1

File No: I2021/1097

### Committee Recommendation 5.3.1

That the Audit, Risk and Improvement Committee notes the strategic and operational risk reports for the quarter ending 30 June 2021 (#E2021/88532).

**21-398**      **Resolved** that Council adopts the following Committee Recommendation:

### **Report No. 5.4 2020-2021 Continuous Improvement Pathway Program**

File No: I2021/1106

### Committee Recommendation 5.4.1

That Audit Risk and Improvement Committee notes the results of the CIP 2020-2021 workbook (#E2021/86609).

**21-399**      **Resolved** that Council adopts the following Committee Recommendations:

### **Report No. 5.5 Cyber Security and System Outages Quarterly Update**

File No: I2021/1196

### Committee Recommendation 5.5.1

That the Audit Risk and Improvement Committee:

1. Notes the report and attached security reports:
  - a) ARIC Security Incident Report 2021 Q2. (#E2021/95614)
  - b) ARIC Incident Outage Report 2021 Q2. (#E2021/95613)
2. Receives ongoing cyber security and system outage status reports.

**21-400**      **Resolved** that Council adopts the following Committee Recommendation:

### **Report No. 5.6 External Audit Actions Quarter 4 2020-2021 Update**

File No: I2021/1246

### Committee Recommendation 5.6.1

That the Audit, Risk and Improvement Committee notes the external audit update (including the closure of four issues) for the quarter ending 30 June 2021 (#E2021/100193).

## **M I N U T E S   O F   M E E T I N G**



### **AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING**

Venue	Conference Room, Station Street, Mullumbimby
Date	Thursday, 19 August 2021
Time	11.30am

*I2021/1313  
Distributed 12/08/21*

# BYRON SHIRE COUNCIL

## ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

3.1 - ATTACHMENT 1

### BYRON SHIRE COUNCIL

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING MINUTES 19 AUGUST 2021

#### **Minutes of the Audit, Risk and Improvement Committee Meeting held on Thursday, 19 August 2021**

**File No:** I2020/1313

PRESENT: Cr A Hunter

Staff: Mark Arnold (General Manager)  
James Brickley (A/Director Corporate and Community Services)  
Esmeralda Davis (Manager Corporate Services)  
Colin Baker (Manager, Business Systems and Technology)  
Alexandra Keen (Audit, Risk and Improvement Coordinator)

Community: Michael Georghiou (Chairperson), Brian Wilkinson, Rae Wills

Others: Judy Malpa (O'Connor Marsden) present for item 5.1 only  
Adam Kim and Jarrod Lean (Grant Thornton)  
Gearoid Fitzgerald (NSW Audit Office)

*Michael Georghiou (Chair) opened the meeting at 11:34AM and acknowledged that the meeting was being held on Bundjalung Country.*

#### APOLOGIES:

Cr M Lyon  
Cr B Cameron  
Vanessa Adams (Director, Corporate and Community Services)  
Pamela Robertson-Gregg (O'Connor Marsden)  
Mila Jones (Governance Coordinator)

ABSENT:  
Adam Bradfield (TNR)

#### DECLARATIONS OF INTEREST – PECUNIARY AND NON-PECUNIARY

There were no declarations of interest.

**BYRON SHIRE COUNCIL**

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING MINUTES 19 AUGUST  
2021

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**ADOPTION OF MINUTES FROM PREVIOUS MEETINGS**

**Report No. 3.1**      **Adoption of Minutes from Audit, Risk and Improvement  
Committee Meeting 20 May 2021**  
**File No:**            I2021/1158

**Committee Recommendation:**

**That the minutes of the Audit, Risk and Improvement Committee Meeting held on 20  
May 2021 be confirmed.**

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

*Note: The minutes of the meeting held on 20 May 2021 were noted, and the Committee  
Recommendations adopted by Council, at the Ordinary Meeting held on 24 June  
2021.*

**BUSINESS ARISING FROM PREVIOUS MINUTES**

There was no business arising from previous minutes.

**PROCEDURAL MOTION**

**Committee Recommendation:**

That Council change the order of business to deal with Report 5.1 next on the Agenda.

(Georghiou/Hunter)

*The recommendation was put to the vote and declared carried.*

**PROCEDURAL MOTION**

**Committee Recommendation:**

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 following reports:
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
3. That on balance it is considered that receipt and discussion of the matter in open

# BYRON SHIRE COUNCIL

## ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

## 3.1 - ATTACHMENT 1

### BYRON SHIRE COUNCIL

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING MINUTES 19 AUGUST  
2021

Council would be contrary to the public interest, as:

nature and content of internal audit report is for operational purposes only  
(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

**Report No. 5.1**      **CONFIDENTIAL - Internal Audit Report - June 2020-21**  
**File No:**            I2021/1192

#### **Committee Recommendation:**

**That the Audit, Risk and Improvement Committee:**

- 1. Notes the Internal Audit Status Report – June 2021 (Attachment 1 - E2021/95033)**
- 2. Endorses the recommendations from the Executive Team to close off 10 recommendations in Appendices A and B of the Internal Audit Status Report (Attachment 1 - E2021/95033)**
- 3. Requests management to implement the recommendations made in the Internal Audit of Procurement (Tendering) – June 2021 (E2021/76376)**

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

#### **PROCEDURAL MOTION**

#### **Committee Recommendation:**

That the meeting move out of confidential session.

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

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**BYRON SHIRE COUNCIL**

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING MINUTES 19 AUGUST  
2021

**STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES**

**Report No. 4.1      Audit, Risk and Improvement Committee Performance  
Assessment**  
**File No:**            I2021/1297

**Committee Recommendation:**

**That ARIC members consider its performance in accordance with the requirements of the ARIC constitution (Attachment 1) and prepare a report for the next ARIC meeting.**

(Georghiou/Hunter)

*The recommendation was put to the vote and declared carried.*

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**Report No. 4.2      NSW Auditor-General Annual Work Program 2021-2024**  
**File No:**            I2021/1292

**Committee Recommendation:**

**That ARIC note the NSW Auditor-General's Annual Work Program for 2021-2024 at Attachment 1.**

(Georghiou/Hunter)

*The recommendation was put to the vote and declared carried.*

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**Report No. 4.3      Annual Legislative Compliance Status Report 2020-2021**  
**File No:**            I2021/1127

**Committee Recommendation:**

**That the Audit, Risk and Improvement Committee notes Council's compliance with legislative reporting requirements as of 30 June 2021.**

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

BYRON SHIRE COUNCIL

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING MINUTES 19 AUGUST 2021

**Report No. 4.4**      **Delivery Program 6-monthly Report and 2020/21 Operational Q4 Report - to 20 June 2021**  
**File No:**              I2021/1234

**Committee Recommendation:**

That the Audit, Risk, and Improvement Committee notes the Delivery Program 6-monthly Report and 2020/21 Operational Plan Fourth Quarter Report for the period ending 30 June 2021 (Attachment 1 #E2021/97874).

(Georghiou/Hunter)

*The recommendation was put to the vote and declared carried.*

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**Report No. 4.5**      **AASB1059 - Service Concession Arrangements: Grantors**  
**File No:**              I2021/1241

**Committee Recommendation:**

That the Audit, Risk and Improvement Committee consider the requirements of AASB1059 Service Concession Arrangements: Grantors and confer with the view that the requirements of AASB 1059 have no application to Byron Shire Council and therefore no disclosure obligations in the financial statements.

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried*

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**CONFIDENTIAL REPORTS - CORPORATE AND COMMUNITY SERVICES**

**PROCEDURAL MOTION**

**Committee Recommendation:**

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 following reports:
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

BYRON SHIRE COUNCIL

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING MINUTES 19 AUGUST 2021

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 internal audit report is for operational purposes only.

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

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**Report No. 5.2      CONFIDENTIAL - Internal Audit Plan 2021-2024**  
**File No:            I2021/1096**

**Committee Recommendation:**

**That the Committee endorses the Internal Audit Plan for 2021 - 2024 (Attachment 1 E2021/97611) for approval by Council.**

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

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**Report No. 5.3      CONFIDENTIAL - Risk Management Update**  
**File No:            I2021/1097**

**Committee Recommendation:**

**That the Audit, Risk and Improvement Committee notes the strategic and operational risk reports for the quarter ending 30 June 2021 (E2021/88532).**

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

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**Report No. 5.4      CONFIDENTIAL - 2020-2021 Continuous Improvement Pathway Program**  
**File No:            I2021/1106**

**Committee Recommendation:**

**That Audit Risk and Improvement Committee notes the results of the CIP 2020-2021 workbook in Attachment 1 (E2021/86609).**

(Georghiou/Wilkinson)

BYRON SHIRE COUNCIL

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING MINUTES 19 AUGUST 2021

*The recommendation was put to the vote and declared carried.*

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**Report No. 5.5**      **CONFIDENTIAL - Cyber Security and System Outages Quarterly Update**  
**File No:**            I2021/1196

**Committee Recommendation:**

**That the Audit Risk and Improvement Committee:**

- 1. Notes the report and attached security reports;**
  - a) ARIC Security Incident Report 2021 Q2. Attachment 1 (E2021/95614)**
  - b) ARIC Incident Outage Report 2021 Q2. Attachment 2 (E2021/95613)**
- 2. Receives ongoing cyber security and system outage status reports.**

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

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**Report No. 5.6**      **CONFIDENTIAL - External Audit Actions Quarter 4 2020-2021 Update**  
**File No:**            I2021/1246

**Committee Recommendation:**

**That the Audit, Risk and Improvement Committee notes the external audit update (including the closure of four issues) for the quarter ending 30 June 2021 as outlined in Confidential Attachment 1 (#E2021/100193).**

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

**PROCEDURAL MOTION**

**Committee Recommendation:**

**That the meeting move out of confidential session.**

(Georghiou/Wilkinson)

*The recommendation was put to the vote and declared carried.*

**BYRON SHIRE COUNCIL**

ADOPTION OF MINUTES FROM PREVIOUS MEETINGS

3.1 - ATTACHMENT 1

**BYRON SHIRE COUNCIL**

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING MINUTES 19 AUGUST  
2021

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*There being no further business the meeting concluded at 1.06PM.*

STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

**Report No. 4.1      Proposed ARIC Work Plan for 2022**

**Directorate:** Corporate and Community Services

5    **Report Author:** Alexandra Keen, Audit, Risk & Improvement Coordinator

**File No:** I2021/1578

**Summary:**

A proposed Audit, Risk, and Improvement Committee (ARIC) Work Plan has been prepared for 2022 for ARIC's consideration and approval.

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**RECOMMENDATION:**

15    **That the Audit, Risk and Improvement Committee approve the draft Audit Risk and Improvement Committee Work Plan for 2022 at Attachment 1 (E2021/120219).**

**Attachments:**

20    1    Draft ARIC Work Plan 2022, E2021/120219 , page 21 [↓](#)

## Report

A draft Work Plan for 2022 (Work Plan) has been prepared at Attachment 1 to assist in guiding the Audit, Risk, and Improvement Committee (ARIC) deliberations for 2022.

- 5 The Work Plan provides for a minimum of four meetings per year (as per the Constitutional requirements of ARIC) and has allocated reports and updates to be provided to the ARIC at each meeting. A fifth, extraordinary, meeting has been proposed in order for ARIC to consider and review the externally audited financial reports which Council has experienced delays in receiving in the past.

- 10 The preparation and review by ARIC of the Work Plan addresses the request of ARIC members raised at the ARIC meeting of 19 August 2021.

Due to the timing of the Local Government elections occurring on 4 December 2021, and the need to reconvene the ARIC with new membership, it is expected the first ARIC meeting for 2022 will be held in March.

## Key issues

- 15 The Work Plan has been prepared to meet the minimum topics within ARIC's remit in accordance with s428A(2) of the *Local Government Act 1993*, which is expected to commence by June 2022, being:

*The Committee must keep under review the following aspects of the council's operations—*

- 20 (a) *compliance,*  
(b) *risk management,*  
(c) *fraud control,*  
(d) *financial management,*  
(e) *governance,*  
25 (f) *implementation of the strategic plan, delivery program and strategies,*  
(g) *service reviews,*  
(h) *collection of performance measurement data by the council,*  
(i) *any other matters prescribed by the regulations.*  
30 (3) *The Committee is also to provide information to the council for the purpose of improving the council's performance of its functions.*

## Next steps

ARIC to consider the Work Plan and advise of any proposed amendments. The Work Plan will then be used by ARIC and Council staff to guide their work and reporting timeframes for 2022.

## 5 Strategic Considerations

### Community Strategic Plan and Operational Plan

CSP Objective	CSP Strategy	DP Action	Code	OP Activity
<b>Community Objective 5: We have community led decision making which is open and inclusive</b>	5.6: Manage Council's resources sustainably	5.6.7: Develop and embed a proactive risk management culture	<b>5.6.7.4</b>	Coordinate the Audit Risk and Improvement program

### Consultation and Engagement

- Manager Finance
- Governance Coordinator
- Manager Corporate Services
- Corporate Planning and Improvement Coordinator.

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# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.1 - ATTACHMENT 1

### DRAFT Audit, Risk, and Improvement Committee Meeting Schedule 2022 (to be confirmed following the first Council meeting on 20 January 2022)

Topic	Responsible Officer	Meeting 1 March	Meeting 2 May	Meeting 3 August	Meeting 4 Extraordinary October	Meeting 5 November
<b>Compliance</b>						
Annual Legislative Compliance Status Report - Monitoring and Reporting	Governance Coordinator			✓		
Policy Register	Governance Coordinator			✓		
<b>External Audit</b>						
External Audit Engagement Plan	Manager Finance	✓				
External Audit Activity Report	Manager Finance	✓	✓	✓		✓
2021 End of Year Audit Management Letter	Manager Finance	✓				
<b>Fraud Control</b>						
Fraud and Corruption Control Update and issues arising	Legal Counsel		✓			
<b>Financial Management</b>						
2021-22 Financial Statements Council's annual financial statements and external audit report	Manager Finance				✓	
<b>Governance</b>						
Governance and Delegations Update	Governance Coordinator					✓
<b>Implementation of strategic plan, delivery plan and strategies</b>						
Operational Plan Quarterly Report - Council's performance against delivery program and strategies	Corporate Planning and Improvement Coordinator	✓	✓	✓		✓

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# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.1 - ATTACHMENT 1

Strategic Plan 6-monthly Update	Corporate Planning and Improvement Coordinator		✓			✓
<b>Internal Audit</b>						
Quarterly Internal Audit Activity Update	Audit, Risk, and Improvement Coordinator	✓	✓	✓		✓
Internal Audit Plan 2022-23	Audit, Risk, and Improvement Coordinator & Internal Auditors			✓		
<b>Performance</b>						
Annual Report presentation	Manager, Corporate Services & Corporate Planning and Improvement Coordinator	✓				✓
ARIC Constitution Review	Audit, Risk, and Improvement Coordinator	✓				
ARIC Self-assessment	ARIC					✓
ARIC Work Plan Setting	ARIC					✓
<b>Risk Management</b>						
Cyber-Security and System Outages Quarterly Update	Manager Business Systems and Technology	✓	✓	✓		✓
2022 Business Continuity Plan Review	Audit, Risk, and Improvement Coordinator	✓				
Quarterly Risk Report	Audit, Risk, and Improvement Coordinator	✓	✓	✓		✓

## BYRON SHIRE COUNCIL

### STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

### 4.1 - ATTACHMENT 1

Emerging risks, major projects, and upcoming significant work programs - Divisional Updates by Directors	Executive Directors		✓			✓
<b>Service Reviews</b>						
Service Reviews - As required	Relevant Manager					

**Report No. 4.2      Office of Local Government - Risk Management and Internal Audit for Local Councils in NSW: Guidelines**

**Directorate:** Corporate and Community Services

5    **Report Author:** Alexandra Keen, Audit, Risk & Improvement Coordinator

**File No:** I2021/1451

**Summary:**

10    This report provides options for the Audit, Risk and Improvement Committee to consider with respect to making a submission to the Office for Local Government on the draft *Risk Management and Internal Audit for Local Councils in NSW: Guidelines*.

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**RECOMMENDATION:**

15    **That the Audit, Risk and Improvement Committee approves:**

- i)    the drafting of a submission to the Office of the Local Government on the *Draft Risk Management and Internal Audit for Local Councils in NSW - Guidelines* on behalf of Byron Shire Council, based on the matters at Attachment 3 (E2021/115947)
- 20    ii)   the consideration of the draft submission at the next Audit, Risk, and Improvement Committee meeting on 11 November 2021 prior to going to Council for endorsement on 25 November 2021.

**Attachments:**

- 25    1    Draft Risk Management and Internal Audit Framework for Local Councils in NSW: Guidelines, E2021/112230 , page 28[↓](#)
- 2    2    Summary Guide of the Discussion Paper, E2021/112229 , page 141[↓](#)
- 3    3    Proposed issues for inclusion in a submission to the Office for Local Government, E2021/115947 , page 144[↓](#)

30

## Report

The Office of Local Government (OLG) issued the third draft of the *Risk Management and Internal Audit for Local Councils in NSW: Guidelines* (the Guidelines) (refer Attachment 1) on 24 August 2021. The Guidelines are out for consultation and feedback until close of business 26 November 2021. The Guidelines will form part of the *Local Government Act Regulations* pursuant to section 428A of the *Local Government Act 1993*. The summary document which accompanied the Guidelines is at Attachment 2. Both documents were circulated to ARIC members via email on 30 August 2021.

The OLG advises that it is expected the Guidelines will be proclaimed for commencement by June 2022.

## Key issues

The Guidelines set out a new framework for local councils in NSW for internal audit, risk management, and the establishment of Audit, Risk, Improvement Committees (ARIC). The intent appears to be to ensure there is greater oversight, consistency, and process around these core functions. The Guidelines propose a staged approach to the implementation of key requirements by councils, namely:

- **4 June 2022** – establish an ARIC
- **30 June 2024** – adoption of risk management framework and internal audit functions
- **June 2027** – ARIC compliance with membership and reporting requirements

It should be noted that Byron Shire Council currently broadly complies with several of the proposed requirements including for example having an ARIC, a risk management framework, and internal audit functions. There are a number of specific processes and requirements which will need to be implemented by Council over the next six years to ensure full compliance with the Guidelines.

## Options

There are several options available to Council and ARIC with respect to the Guidelines:

**Option 1:** Prepare a submission to the OLG to raise key issues or concerns in respect of the Guidelines based on suggestions at Attachment 3. This is the recommended option.

**Option 2:** Accept the Guidelines as currently drafted, and not provide a submission.

**Option 3:** Reject the Guidelines as currently drafted and provide a submission to this effect.

## Next steps

A draft submission to the OLG will be presented to the ARIC meeting of 11 November 2021, with a view to providing the submission to Council for endorsement at its meeting of 25 November 2021.

## 5 Strategic Considerations

### Community Strategic Plan and Operational Plan

CSP Objective	CSP Strategy	DP Action	Code	OP Activity
<b>Community Objective 5: We have community led decision making which is open and inclusive</b>	5.6: Manage Council's resources sustainably	5.6.7: Develop and embed a proactive risk management culture	<b>5.6.7.4</b>	Coordinate the Audit Risk and Improvement program
<b>Community Objective 5: We have community led decision making which is open and inclusive</b>	5.6: Manage Council's resources sustainably	5.6.7: Develop and embed a proactive risk management culture	<b>5.6.7.1</b>	Evaluate and improve risk management framework
<b>Community Objective 5: We have community led decision making which is open and inclusive</b>	5.6: Manage Council's resources sustainably	5.6.7: Develop and embed a proactive risk management culture	<b>5.6.7.2</b>	Implement training and development program to improve the risk management culture in the organisation

## Financial Considerations

10 The Guidelines in their current form have the potential to impose a significant increase in financial costs to Council associated with member fees, resourcing of the ARIC (including the requirement for a budget or process to obtain external expertise when required), and to meet increased reporting requirements.

**Consultation and Engagement**

The Audit, Risk and Improvement Coordinator canvassed the views of other Northern Rivers Councils at the Northern Rivers Risk Management Group (NRRMG) meeting on 21 September 2021.

- 5 Most member councils had not had sufficient opportunity to digest the changes to the Guidelines, however, Rous County Council indicated it would be providing a submission which would likely focus on the practical application of the Guidelines, rather than seeking changes.
- 10 Internal consultation has occurred with the Executive Team and Manager Corporate Services who are supportive of tabling the list of potential issues (Attachment 3) at this ARIC meeting for further consideration.

# RISK MANAGEMENT AND INTERNAL AUDIT for local councils in NSW

## Guidelines

August 2021



**GUIDELINES FOR RISK MANAGEMENT AND INTERNAL AUDIT FOR LOCAL COUNCILS  
IN NSW**

2021

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# Background

## Background

The *Local Government Act 1993* ('Local Government Act') and the *Local Government (General) Regulation 2005* ('Local Government Regulation') require each council in NSW to have:

- an audit, risk and improvement committee that continuously reviews and provides independent advice to the council on how it is functioning and managing risk
- a robust risk management framework that accurately identifies and mitigates the risks facing the council and its operations, and
- an effective internal audit function that provides independent advice as to whether the council is functioning effectively and the council's internal controls to manage risk are working.

These three mandatory governance mechanisms are a vital part of the NSW Government's plan to ensure that councils are doing things the best way they can for their communities and are on track to delivering their community's goals and objectives.

Communities themselves will ultimately be the greatest beneficiaries.

If implemented effectively, audit, risk and improvement committees, risk management and internal audit will lead to councils:

- achieving their strategic objectives in the most efficient, effective and economical manner
- having better and more efficient levels of service delivery
- having increased accountability and transparency
- achieving better decision-making and having the confidence to make difficult decisions
- having increased financial stability
- achieving and maintaining compliance with all laws, regulations, internal policies and procedures, and
- better safeguarding their public assets.

## Purpose

These guidelines have been developed to assist councils, county councils and joint organisations to comply with statutory requirements under the Local Government Act and Local Government Regulation.

They also seek to strengthen risk management and internal audit practices in NSW councils by setting a minimum standard that reflects a 'best practice' approach.

The Guidelines have been issued under the Local Government Regulation (clause #tbc) which confers on the Secretary of the Department of Planning, Industry and Environment, ('Secretary DPIE'), the power to issue guidelines on the appointment and operation of audit, risk and improvement committees and the implementation by councils, county councils and joint organisations of risk management and internal audit activities.

Councils are required under the Local Government Regulation to comply with these Guidelines when establishing and operating their audit, risk and improvement committees, risk management framework and internal audit functions.

They replace the NSW Government's *Internal Audit Guidelines for Local Government in NSW* issued in 2010.

The three core requirements outlined in the Guidelines reflect international standards and the recommendations and opinions of internal audit practitioners, councils, councillors, audit, risk and improvement committee members, risk management practitioners, government agencies, experts and community members.

They are also informed by practices in other Australian jurisdictions and give effect to the recommendations of the:

- Independent Commission Against Corruption in its inquiries into Burwood Council (2011) and Botany Bay Council (2017)

- Local Government Acts Taskforce in its review of the *Local Government Act 1993* (2013)
- Independent Local Government Review Panel in its *Revitalising Local Government* inquiry (2013), and
- various performance audits and other reviews conducted by the NSW Auditor-General since 2010.

Based on these recommendations:

- the core requirements outlined in the Guidelines relating to the operation of a council's audit, risk and improvement committee have been modelled on the *Internal Audit and Risk Management Policy for the General Government Sector (TPP 20-08)* developed by NSW Treasury and best practice in the public and private sectors
- the core requirements relating to risk management have been modelled on the current Australian risk management standard, *AS/NZS ISO 31000:2018 Risk Management – Guidelines*, and
- the core requirements relating to a council's internal audit function have been modelled on the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* (the 'International Professional Practices Framework') and best practice in the public and private sectors.

The framework balances these professional standards and best practice approaches with the unique structure, needs and operating environments of metropolitan, regional and rural councils, county councils and joint organisations across NSW.

The release of these Guidelines follows an extensive consultation process. The Office of Local Government thanks all the individuals, councils and bodies involved in the development of the risk management and internal audit regulatory framework.

### Further resources

There has been a wide range of information and guidance developed in recent times by government agencies, experts, practitioners and other bodies to help organisations establish effective audit, risk and improvement

committees, risk management frameworks and internal audit functions.

As a starting point, a list of further resources has been included at the end of each core requirement. These resources provide practical information and tools such as examples, templates, checklists and sample documents that councils may find useful when implementing these Guidelines.

### Terminology

When a joint organisation is applying these Guidelines, it should substitute the term "council" for "joint organisation", "governing body" for "board", "chairperson" for "mayor", "voting representative" for "councillor" and "executive officer" for "general manager" and "annual report" for "annual performance statement", where appropriate.

Where a county council is applying these guidelines, it should substitute the terms "county council" for "council" and "member" for "councillor", where appropriate.

## **Statutory framework**

The Local Government Act and Local Government Regulation provide the statutory foundations and prescribe the desired outcomes for councils' audit, risk and improvement committees, risk management frameworks and internal audit functions.

Relevant provisions of the Local Government Act and Local Government Regulation are detailed below.

## **Guiding principles of local government**

The guiding principles of the Local Government Act (sections 8A, 8B and 8C) 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
- invest in responsible and sustainable infrastructure for the benefit of the local community
- 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
- ensure the current generation funds the cost of its services and achieves intergenerational equity, and
- manage risks to the local community, area or council effectively and proactively.

## **Role of the governing body**

To achieve these guiding principles, the Local Government Act (section 223) provides that the role and responsibilities of the governing body include:

- directing and controlling the affairs of the council in accordance with the Local Government Act

- ensuring, as far as possible, the financial sustainability of the council
- ensuring, as far as possible, that the council complies with the guiding principles of the Local Government Act
- keeping the performance of the council under review
- making the decisions necessary to ensure the council properly exercises its regulatory functions, and
- being responsible for ensuring that the council acts honestly, efficiently and appropriately.

## **Role of the general manager**

The Local Government Act (section 335) provides that the general manager is responsible for:

- conducting the day-to-day management of the council in accordance with the strategic plans, programs, strategies and policies of the council – this includes establishing the council's organisational structure and appointing and dismissing council staff (section 332)
- implementing, without undue delay, the lawful decisions of the council
- advising the governing body on the development and implementation of the council's plans, programs, strategies and policies, 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.

The Local Government Regulation (clause 209) also requires the general manager to 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.

## Role of a joint organisation

The Local Government Act establishes joint organisations as a strategic regional body of councils.

The role and responsibilities of a joint organisation under the Local Government Act (section 400R) are to:

- establish regional priorities for the joint organisation area and strategies and plans to deliver these priorities
- provide regional leadership for the joint organisation area and advocate for strategic regional priorities, and
- identify and take-up opportunities for intergovernmental cooperation.

Joint organisations also deliver services and provide assistance to, or on behalf of, councils, and councils are able to delegate certain functions to their joint organisation (sections 355, 379 and 400S).

The Local Government Act (section 400Y) provides that the Executive officer of a joint organisation is to:

- conduct the day-to-day management of the joint organisation in accordance with the strategic regional priorities and other plans, programs, strategies and policies of the organisation, and
- appoint, direct and dismiss staff.

## Audit, risk and improvement committee

The Local Government Act (section 428A) requires 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 on:

- whether the council is complying with all necessary legislation, regulations and other legal requirements
- 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 by the council 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 it could improve the performance of its functions more generally
- the collection of performance measurement data by the council, and
- any other matters prescribed by the Local Government Regulation (including internal audit).

The Local Government Act (section 428B) allows councils to establish a joint audit, risk and improvement committee with other councils including through joint or regional organisations of councils.

The Local Government Regulation (clause #tbc):

- requires each council to appoint an audit, risk and improvement committee comprising of a chair and two or more other persons as specified by these Guidelines
- allows councils and joint organisations to share committees
- requires the Chair and other members of an audit, risk and improvement committee to satisfy the eligibility requirements outlined in these Guidelines
- allows councils to appoint a councillor who satisfies the eligibility requirements outlined in these Guidelines as a non-voting member of its committee
- allows joint organisations to appoint a voting representative of the board who satisfies the eligibility requirements

- outlined in these Guidelines as a non-voting member of its committee
- requires each committee to operate in accordance with terms of reference adopted by the council, based on the approved Model Terms of Reference contained in these Guidelines, and
- requires councils to provide their committee with direct and unrestricted access to the general manager and other senior staff and any information and resources necessary to undertake its role.

For the purposes of section 428A(2)(i) of the Local Government Act, councils' and joint organisations' audit risk and review committees are to also keep internal audit activities under review.

The requirements for audit, risk and improvement committees in these Guidelines are detailed in core requirement 1.

## Risk management

The Local Government Regulation (clause #tbc) requires each council and joint organisation to implement a risk management framework that is consistent with the requirements specified in these Guidelines.

A council's general manager or a joint organisation's executive officer has overall responsibility for the implementation of the council's or joint organisations' risk management framework.

A council's audit, risk and improvement committee is to review and provide independent advice to the council on the implementation of its risk management framework under section 428A(2)(b) of the Local Government Act.

The requirements for risk management in these Guidelines are detailed in core requirement 2.

## Internal audit

The Local Government Regulation (clause #tbc):

- requires each council's internal audit activities to operate in accordance with a charter adopted by the council, based on the approved Model Internal Audit Charter contained in these Guidelines
- allows councils and joint organisations to share the performance of internal audit activities
- specifies that a council's audit, risk and improvement committee is to oversee the council's internal audit activities
- requires that a member of the council's staff is appointed to direct internal audit activities – for shared arrangements this can be a staff member of one of the participating councils or joint organisation in the shared arrangement
- requires this member of staff to report only to the audit, risk and improvement committee regarding internal audit activities
- requires the general manager to consider the views of the chair of the council's audit, risk and improvement committee before making any decision affecting the employment of the staff member appointed to direct internal audit activities, and
- requires the audit, risk and improvement committee to review the performance and efficacy of the council's internal audit activities once each council term and report to the governing body of the council on the outcome of its review and make recommendations.

The requirements for internal audit in these Guidelines are detailed in core requirement 3.

## Annual attestation

The Local Government Regulation (clause #tbc) requires the general manager of a council or the executive officer of a joint organisation to publish each year an attestation statement in the council's or joint organisation's annual report indicating whether, during the preceding financial year, the council's or joint organisation's audit, risk and improvement committee, risk management framework and

internal audit function complied with these Guidelines.

An attestation certificate template is provided at **Appendix 1** and attestation requirements are highlighted with this symbol throughout these Guidelines.



The details of each member of the council's audit, risk and improvement committee must also be included in the attestation statement.

This is to ensure that the council takes independent assurance and risk management seriously and is accountable to the community for how it has implemented these requirements.

Compliance status is to be self-assessed by the general manager, in consultation with the audit, risk and improvement committee.

The general manager or executive officer must consider the views of the chair of the council's or joint organisation's audit risk and improvement committee on the content of the attestation statement when preparing the statement.

If the chair disagrees with the content of the attestation statement prepared by the general manager or executive officer, they may prepare their own report and submit this to the Secretary DPIE.

## Exemptions

There may be times where a council or joint organisation will not be able to comply with all requirements relating to its audit, risk and improvement committee, risk management framework or internal audit function.

In these circumstances, the Local Government Regulation (clause #tbc) confers on the Secretary DPIE the power to exempt the council or joint organisation from compliance with a requirement under these Guidelines where the council or joint organisation requests such an exemption. The Secretary DPIE may grant an exemption where they are satisfied that:

- the council or joint organisation cannot comply with the requirement because of temporary extenuating circumstances or resourcing constraints that will significantly impact the council's or joint organisation's budget
- the council or joint organisation is not able to enter into an agreement with another council to share the performance of internal audit activities, and
- current or proposed alternative arrangements will achieve outcomes equivalent to the requirement under these Guidelines.

Under the Local Government Regulation, a council's application to the Secretary for an exemption must be in the form and contain the information specified in these Guidelines.

Where the Secretary exempts a council from a requirement under these Guidelines, the council must publish the Secretary's approval for the exemption in their annual report.

A council is not prevented from applying for a further exemption when a previous exemption expires.

## Accountability

Councils that are non-compliant with statutory requirements and are not granted an exemption may face enforcement action under the Local Government Act.

## Monitoring

The NSW Auditor-General may undertake an assurance role in monitoring council's compliance with the core requirements outlined in the Local Government Act, Local Government Regulation and these Guidelines.

This may include conducting sector-wide performance audits, or compliance audits of individual councils and undertaking reviews of the statutory exemptions granted by the Secretary DPIE.

# Core requirement 1:

## **Audit, risk and improvement committee**

- Each council and joint organisation has an audit, risk and improvement committee that reviews the matters referred to in section 428A of the Local Government Act

## Guiding principles for audit, risk and improvement committees

- ❖ An audit, risk and improvement committee is independent of the council
- ❖ The committee is equipped with the relevant expertise and has the access to council resources and information necessary to fulfil its role and responsibilities effectively
- ❖ Each council receives relevant and timely advice and assurance from the committee on the matters listed in section 428A of the Local Government Act
- ❖ The work of the committee is thoroughly planned and executed, risk-based and linked to the council's strategic goals
- ❖ The committee adds value to the council and is held accountable by the governing body for its performance
- ❖ The council is accountable to the community for complying with statutory requirements relating to the committee.

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

The Local Government Regulation (clause #tbc) also requires a council's audit, risk and improvement committee to review and provide advice on the council's internal audit activities.

The audit, risk and improvement committee's role also extends to any entities established by or operated by the council.

The exact nature of each audit, risk and improvement committee's role and the specific activities it reviews on behalf of a council under section 428A of the Local Government Act will vary depending on the council's needs, risks and business functions.

These activities are to be agreed by the audit, risk and improvement committee and the council during the development of the committee's terms of reference. Suggested activities are provided in **Appendix 2**.

## Level of assurance

Audit, risk and improvement committees are to have an advisory and assurance role only. They are to exercise no administrative functions, delegated financial responsibilities or any management functions for a council.

It is expected that each audit, risk and improvement committee will provide independent advice to the council that is informed by the council's internal audit and risk management activities and information and advice provided by council staff, relevant external bodies and other subject matter experts.

## Role and functions

Under section 428A of the Local Government Act, each council (including county councils and joint organisations) must have an audit, risk and improvement committee to independently review and advise on 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.

## Workplans

### Strategic work plan

It is essential that the work of the audit, risk and improvement committee is thoroughly planned and executed to ensure that no

council activity or function is missed by the committee and that councils receive value for money from their assurance investment.

**A council's audit, risk and improvement committee must develop a strategic plan every four years to ensure that all the matters listed in section 428A of the Local Government Act are reviewed by the committee and internal audit function over each council term.**



The plan must be developed by the audit, risk and improvement committee in consultation with the governing body, general manager, the head of the internal audit function and senior managers (where appropriate) and adopted by the governing body of the council at the start of the council term.

To maintain the independence of the audit, risk and improvement committee, the governing body of the council must be careful when adopting the strategic workplan not to direct the committee's work over the council term.

### Content

The nature of the strategic plan will be commensurate with the size and complexity of the council, as well as the council's risk profile, and consistent with the requirements of the International Professional Practices Framework.

At a minimum, it should document:

- the goals and expected outcomes of the audit, risk and improvement committee for the council term
- key organisational issues and risks faced by the council and how the committee will review these, and
- key performance indicators to measure progress across council terms.

When developing the council's strategic workplan, the audit, risk and improvement committee should consider at a minimum:

- the council's strategic objectives
- risks facing the council
- the work of other review activities or functions (for example, external and

performance audits, and reviews or audits by other government agencies)

- an assurance map of the council's assurance activities which may assist to determine where the Committee's and internal audit function's work should focus, and
- stakeholder expectations.

There should also be sufficient flexibility in the strategic plan to accommodate the need for additional audits on emerging risks from time to time.

The audit, risk and improvement committee may, in consultation with the council's governing body, vary the strategic work plan at any time to address new or emerging risks.

The governing body of the council may also, by resolution, request the committee to approve a variation to the strategic work plan. However, any decision to vary the strategic work plan will rest with the committee.

When considering whether to vary the strategic work plan, the committee must consider the impact of the variation on the internal audit function's existing workload and the completion of pre-existing priorities and activities identified under the strategic workplan.

### Review

The audit, risk and improvement committee must review the four-year strategic plan at least annually to ensure that it is dynamic, relevant and 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.

### Annual work plan

**A council's audit, risk and improvement committee must develop an annual work plan to guide its work over the forward year.**



The annual work plan must be developed by the audit, risk and improvement committee in consultation with the governing body, general manager, head of the internal audit function and senior managers (where appropriate).

The annual work plan must be consistent with the requirements of the International Professional Practices Framework and identify:

- the internal audits that will be carried out during the year to support the work of the audit, risk and improvement committee
- the key goals, objectives and scope of the proposed audits
- the resources needed for each audit (for example, staffing, budget, technology), and
- key performance indicators to measure annual progress against.

The annual work plan must be flexible enough to allow it to be reviewed and adjusted as necessary throughout the year in response to any changes to the council's risks or operations.

The audit, risk and improvement committee may, in consultation with the council's governing body vary the annual work plan to address new or emerging risks.

The governing body of the council may also, by resolution, request the committee to approve a variation to the annual work plan. However, any decision to vary the annual work plan will rest with the committee.

When considering whether to vary the annual work plan, the committee must consider the impact of the variation on the internal audit function's existing workload and the completion of pre-existing priorities and activities identified under the annual work plan.

## Performance measurement

The performance of each council's audit, risk and improvement committee and internal audit function, as well as the council, must be able to be assessed to measure progress and improvement.

The audit, risk and improvement committee must establish key performance indicators for

the council's strategic four-yearly workplan and annual work plan to enable the council to gauge the:

- performance of the Committee and internal audit function and the value they are providing the council, and
- council's performance regarding the matters listed in s428A so that the council can assess whether it is improving each council term in these areas.

These key performance indicators are to be reviewed and reset by the audit, risk and improvement committee for each annual work plan and strategic four-yearly work plan to ensure they reflect the changing needs of the council and the increased capacity of the Committee and internal audit function as they mature.

The general manager, in consultation with the audit, risk and improvement committee, must ensure that a data collection or performance management system is established and maintained to collect the data needed to measure progress against these key performance indicators.

## Providing advice to the governing body

### Quarterly updates

Ongoing reporting by the audit, risk and improvement committee to the governing body (and general manager) is essential for accountability and will ensure that the governing body is kept abreast of matters considered by the Committee and any emerging issues that may influence the strategic direction of the council or the achievement of the council's goals and objectives.

It will also ensure strong linkages between the audit, risk and improvement committee, the governing body and the general manager and lead to a better functioning assurance mechanism.

The audit, risk and improvement committee must provide an update to the governing body of the council of its activities and opinions after every committee meeting.

The audit, risk and improvement committee must also provide its quarterly update to the general manager to ensure they are kept abreast of issues raised and can answer any questions the governing body may have about the committee's opinions and recommendations.

The mayor can request to meet with the Chair of the audit, risk and improvement committee at any time to discuss any issues relating to the work of the committee during the quarter.

The chair of the audit, risk and improvement committee can also request to meet with the mayor at any time.

### Content

The nature and content of the audit, risk and improvement committee's quarterly updates is to be determined by the governing body and the committee.

It could simply be providing a copy of the audit, risk and improvement committee's meeting minutes to the governing body if appropriate, or something more formal such as a report for noting by the governing body, or a face-to-face meeting between the committee, governing body and general manager to discuss important issues that have been identified.

Whatever the nature and form the update takes, the governing body and general manager must be advised, at a minimum, of:

- any formal resolutions of the audit, risk and improvement committee
- the committee's assessment of any audits conducted, including any breaches or lack of controls that require an immediate response from the council
- progress on the implementation of corrective actions
- opportunities for longer-term improvement, and

- any key opinions or 'take-outs' from the committee's meeting.

Should the governing body require additional information, a request for the information may be made to the Chair by resolution. The Chair may only provide the information requested by the governing body where the Chair is satisfied that it is reasonably necessary for the governing body to receive the information for the purposes of performing its functions under the Local Government Act.

Individual councillors are not entitled to request or receive information from the Committee.

## Annual assessment

**A council's audit, risk and improvement committee must provide an annual assessment to the governing body each year.**



This will ensure that the governing body of the council is fully informed of the audit, risk and improvement committee's work and its opinion on how council is performing.

The annual assessment must include:

- a summary and assessment of the work the audit, risk and improvement committee performed to discharge its responsibilities during the preceding year
- an overview and assessment of the work of the internal audit function
- progress against key performance indicators
- advice on the appropriateness of the committee's terms of reference
- an independent assessment and advice on the matters considered by the committee during the year that, in the committee's opinion, and based on the level of risk facing the council, the governing body should be informed of, and
- other views or opinions of the council that the committee wishes to impart.

Before providing their annual assessment to the governing body, the audit, risk and improvement committee must provide a copy

of its annual assessment report to the general manager to enable them to develop an action plan to address any issues identified.

Both the audit, risk and improvement committee's annual assessment and the general manager's action plan can then be considered jointly by the governing body at an annual assurance meeting with the committee and the general manager.

### Annual assurance meeting

It would be beneficial for the audit, risk and improvement committee, governing body and general manager to come together annually to discuss the committee's annual assessment of the council, how the council proposes to respond to the committee's recommendations for corrective actions and other important internal audit and risk management matters.

The governing body may wish to hold an extraordinary or additional meeting each year for this purpose.

The annual assurance meeting should also discuss:

- the audit, risk and improvement committee's annual plan and review priorities for the upcoming year, for the approval via resolution of the governing body
- any resourcing issues for the internal audit or risk management functions that the committee considers the governing body should be informed of
- any updated committee terms of reference, for approval via resolution by the governing body, and
- the general manager's annual assessment of the council's risk management function (see core requirement 2).

The mayor, chair of the audit, risk and improvement committee and general manager can invite observers or other participants to the meeting where appropriate.

## Strategic assessment

**A council's audit, risk and improvement committee must provide to the governing body of the council a comprehensive independent assessment every council term (i.e. four years) of all the matters listed in section 428A of the Local Government Act.**



This will ensure that the governing body of the council is fully informed of the council's performance in relation to the matters specified in section 428A of the Local Government Act and what corrective actions are required to address any issues identified.

It will also provide the governing body with essential information that will assist with strategic decision-making and resource allocation during the next council term.

Before providing their strategic assessment to the governing body, the audit, risk and improvement committee must provide a copy of its report to the general manager to enable the general manager to develop an action plan to address any issues identified during the next council term.

Given the audit, risk and improvement committee's functional responsibility for the internal audit function of the council, the committee must also develop an action plan for the governing body to address any internal audit issues identified by the Committee.

The audit, risk and improvement committee's strategic assessment and the action plans can be considered jointly by the governing body at a strategic assurance meeting held every four years.

### Strategic assurance meeting

It would be beneficial for the audit, risk and improvement committee, governing body and general manager to come together at the close of the council term or commencement of the new council term to discuss the committee's strategic assessment of the council, how the council proposes to respond to the committee's recommendations during the next

council term and any other important internal audit and risk management issues.

This discussion can also inform the strategic plans to be made through the integrated planning and reporting process for the next council term.

The governing body may wish to hold an extraordinary or additional meeting for this purpose.

The four-yearly assessment meeting could also discuss:

- the audit, risk and improvement committee's four-yearly strategic plan for the upcoming council term, for approval by resolution of the governing body
- a four-yearly review of the committee's terms of reference, for noting by the governing body and where applicable, an updated terms of reference for approval by resolution
- the governing body's four-yearly review of the committee's performance and action plan to address any issues identified, for approval by resolution of the governing body
- the Office of Local Government's determination of which tier the council is assigned to for the next council term for the purpose of structuring their committee.

## Terms of Reference

It is important that each audit, risk and improvement committee has clear guidance on how it should serve the council, and that the council has input into how the committee will operate given its investment.

This will ensure there is no ambiguity between the council and the audit, risk and improvement committee, and that the council can measure the committee's performance.

**The Local Government Regulation (clause #tbc) requires a council's audit, risk and improvement committee to operate according to terms of reference consistent with the approved Model Terms of Reference provided at Appendix 3.**



The audit, risk and improvement committee's terms of reference can include additional provisions that are not inconsistent with the approved Model Terms of Reference or other requirements.

The terms of reference are to be approved by resolution of the governing body and reviewed annually by the audit, risk and improvement committee, and once each council term (i.e. four years) by the governing body.

## Structure

Each council will have different audit, risk and improvement committee requirements depending on the council's size, needs, budget and the complexity of its operations.

For this reason, councils can either:

- establish an audit, risk and improvement committee for its own exclusive use, or
- share their committee with another council, county council or joint organisation under section 428B of the Local Government Act.

When deciding the most appropriate way to structure a council's audit, risk and improvement committee, the general manager should consider the viability and capacity of a shared committee to achieve its terms of reference 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
- expectations of stakeholders, and
- likely demands placed on the committee by other councils in the shared arrangement.

## Size and composition

Each council, county council and joint organisation has been categorised as a tier 1 (lowest), tier 2 (middle) or tier 3 (highest) council for the purposes of determining the size and composition of their audit risk and improvement committee.

These categories are detailed in **Appendix 4**.

This categorisation is based on:

- the population, population density and annual population growth or the local government area
- the proximity of the local government area to an urban or regional centre
- the council's financial status (including operating revenue and expenses)
- the grouping of the council with other similar councils according to the *Your Council* website
- the remuneration categories determined by the Local Government Remuneration Tribunal, and
- an understanding by the Office of Local Government of the council's overall performance and risk profile.

**The Local Government Regulation (clause #tbc) requires each council to appoint an audit, risk and improvement committee that has three or more members according to the council's categorisation under these Guidelines as a tier 1, tier 2 or tier 3 council.**



This is to ensure that the requirements of a council's audit, risk and improvement committee are appropriate for the council's size, risk profile, operational complexity, resources, and its ability to attract suitably qualified committee members.

While there are a number of significant differences in the size and composition of audit, risk and improvement committees established by councils under each tier, councils and joint organisations in all tiers must comply with the following requirements:

- the chair of the audit, risk and improvement committee must:
  - meet the independence requirements for committee members, and
  - be prequalified as a chair under the NSW Government's *Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members* ('prequalification scheme') (unless exemption applies)
- all other voting members must meet the independence requirements for committee members (see below)
- the Local Government Regulation (clause #tbc) allows each committee to have an optional non-voting councillor member that meets the committee's eligibility criteria for councillor members (see below), and
- the size and composition requirements of a committee are the same whether the committee is established by a council for its exclusive use or as part of a shared arrangement.

The minimum requirements for the composition of audit risk and improvement committees in each tier are set out below. It should be noted that these are the minimum requirements.

Councils can establish larger committees and include more prequalified committee members than required should they choose to do so.

### Tier review

The tier each council has been placed in will be reviewed by the Office of Local Government each council term.

Any changes must be considered by councils as part of their four-yearly review of the audit, risk and improvement committee. Where a council is re-categorised by the Office of Local Government to a higher or lower tier, the council will need to review the structure and composition of its audit, risk and improvement committee to comply with the requirements of the tier it has been placed in.

The governing body of a council can determine via resolution to either:

- comply immediately – i.e. vacate all the redundant membership positions and appoint new members that comply with the new requirements at the same time, or
- comply later - stagger compliance by allowing existing members to complete their current terms and ensure any members appointed thereafter comply with the new requirement.

Where compliance is staggered, the council can request an exemption from the Secretary DPIE from complying with the new requirement in relation to the committee's composition as part of the attestation process.

Any exemption granted will apply for two reporting periods (i.e. two years).

Councils that are categorised in a higher tier may maintain their existing arrangements where they are reviewed by the Office of Local Government and placed in a lower tier should they choose to do so.

## General purpose councils

### Tier 1 councils

All councils that are categorised as a tier 1 council are required at a minimum to have an audit, risk and improvement committee that has:

- 3 independent voting members comprising:
  - 1 chair prequalified under the NSW Government's prequalification scheme
  - 2 independent persons that meet the eligibility criteria for non-prequalified committee members (see below), and
- (optional) 1 non-voting councillor that meets the eligibility criteria for councillor members (see below).

### Exemptions

It is recognised that some small councils located in remote local government areas may find it difficult to attract and retain a

prequalified chair for their audit, risk and improvement committee.

Whilst prequalification is preferred, where a tier 1 council is unable to appoint a prequalified chair, the council can apply to the Secretary DPIE for an exemption from this requirement.

The council's application for an exemption must:

- be in writing
- outline the efforts the council has made to appoint a prequalified chair, and
- outline the reasons why the council has been unsuccessful.

The council must also demonstrate to the Secretary that any alternative chair recommended for appointment meets the following eligibility criteria:

- strong leadership qualities
- the ability to promote effective working relationships among audit, risk and improvement committee members and with the council's internal audit function and external auditor
- the ability to communicate complex and sensitive issues in a tactful manner to the governing body, general manager and council staff
- an understanding of the duties and responsibilities of the position
- a sound understanding of the council and local government
- functional knowledge in areas such as:
  - financial management and reporting
  - accounting
  - governance (including planning, reporting and oversight)
  - internal and external audit
  - performance management
  - human resources management
  - risk management
  - internal control frameworks
- they can lead effective committee meetings, and
- they have appropriate qualifications or membership to a certifying body (desirable).

Where a council is granted an exemption from this requirement by the Secretary, the exemption will apply for the duration of the chair's term.

Exemptions will only be granted in exceptional circumstances.

The Secretary may consult with the administrator of prequalification scheme when making its exemption determination.

### Tier 2 councils

All councils that are categorised as a tier 2 council are required at a minimum to have an audit, risk and improvement committee that has:

- 3 voting members comprising:
  - 1 independent chair prequalified under the NSW Government's prequalification scheme
  - 1 independent member prequalified under the NSW Government's prequalification scheme
  - 1 independent person that meets the eligibility criteria for non-prequalified committee members (see below), and
- (optional) 1 non-voting councillor that meets the eligibility criteria for councillor members (see below).

### Tier 3 councils

All councils categorised as a tier 3 council are required to have an audit, risk and improvement committee that has:

- 3-5 voting members comprising:
  - 1 independent chair prequalified under the NSW Government's prequalification scheme
  - A minimum of 2 independent members prequalified under the NSW Government's prequalification scheme, and
- (optional) 1 non-voting councillor that meets the eligibility criteria for councillor members (see below).

The audit, risk and improvement committee appointed by Tier 3 councils should be large enough to represent a balance of views and

experience, but also small enough to operate effectively.

The governing body is to determine the exact size of the audit, risk and improvement committee (3-5 members) in consultation with the chair of the committee and general manager, taking into account the needs and risk profile of the council, and likely workload of the committee.

### County councils

Given their lower risk profile, resource base and operational complexity, county councils are categorised as either tier 1 or tier 2 councils for the purpose of establishing their audit, risk and improvement committee.

Whilst a tier 1 county council can establish an audit, risk and improvement committee for its own exclusive use, for administrative and cost efficiency, it is recommended that tier 1 county councils utilise the committee of a member council/s under an independent shared arrangement (see below).

### Joint organisations

Given their lower risk profile, resource base and operational complexity, joint organisations are categorised as tier 1 councils for the purpose of establishing an audit, risk and improvement committee.

Where a joint organisation has not established an audit, risk and improvement committee within the joint organisation for its member councils as part of a joint organisation shared arrangement, for administrative and cost efficiency, it is recommended that a joint organisation utilise a committee established by one of its member councils as part of an independent shared arrangement (see below).

To ensure the audit, risk and improvement committee has an understanding of the interrelationships and needs of the joint organisation and its member councils, and of wider regional priorities, joint organisations must only enter into an independent shared arrangement with a member council/s.

## Shared committees

Under the Local Government Act (section 428B) and Local Government Regulation (clause #tbc) councils can share an audit, risk and improvement committee. Council can:

- share their committee with another council/s, county council/s and/or joint organisation/s as part of an independent shared arrangement
- utilise a committee established by their joint organisation that is shared with all member councils
- for county councils - share their committee with a member council, or
- for joint organisation - share their committee with a member council.

These options allow councils to establish and operate their audit, risk and improvement committee in a more cost-effective way.

For all shared audit, risk and improvement committees:

- the committee must operate as an individual committee for each council in any shared arrangement and exercise their functions for each council individually
- a shared committee should only be established and utilised by councils where the committee can maintain a strong understanding of each participating council's assurance needs and is able to meet these needs
- a shared committee should only be established and utilised by councils where the committee can maintain an effective working and reporting relationship with the general manager and governing body of each participating council
- councils that are in different tiers but share their internal audit function can, but are not required to, also share their committee
- where a committee is shared by councils that are in different tiers, the requirements for the higher tier will apply to all participating councils (including joint organisations and county councils)
- councils that share their Committee, can but are not required to, also share the committee's secretariat, and

- councils should develop and sign a formal agreement with the other councils in the shared arrangement which outlines how the shared arrangement will operate and costs shared.

Where a joint organisation establishes an audit, risk and improvement committee to serve its member councils, it is at each member council's discretion whether they utilise the shared committee.

## Shared councillor members

It is important to note that where an audit, risk and improvement committee is shared between councils as part of an independently established shared arrangement, or an arrangement established by a joint organisation, and the councils elect to have a councillor member on the committee, the councillor member will not be shared by councils.

To maintain the confidentiality of the business of each council in the shared arrangement considered by the shared committee:

- the governing body of each council is to appoint one councillor member to serve on the audit, risk and improvement committee for that council only
- the councillor member is to only attend committee meetings for their council, and
- the councillor member is to receive information pertaining to their council only.

For joint organisations, the elected councillor member will be a voting representative of the board.

## Shared independent members

Unlike councillor members, the chair and independent members of shared audit, risk and improvement committees will serve all councils participating in the shared arrangement.

For audit, risk and improvement committees appointed as part of an independent shared arrangement, the councils in the shared

arrangement are to mutually agree to the independent members that will be appointed to these roles, and each council is to confirm their appointment by resolution.

For audit, risk and improvement committees appointed as part of an arrangement established by a joint organisation by its member councils, the board of the joint organisation will appoint the chair and independent members of the committee by resolution on behalf of member councils under delegation from the member councils.

## Independence requirements

All audit, risk and improvement committee voting members must be independent to ensure they have no real or perceived bias or conflicts of interest that may interfere with their ability to act independently and can provide the council with robust, objective and unbiased advice about how the council is functioning.

**Each council must ensure that the chair and any voting member appointed to the council's audit, risk and improvement committee meets the following independence criteria.**



The independent voting committee member cannot:

- currently be a councillor of any NSW council
- be a non-voting representative of the board of a joint organisation
- be a candidate at the last election of the council
- be a person who has held office in the council during its previous term
- be currently employed by the council or a joint organisation, or been employed during the last 12 months
- conduct audits of the council on behalf of the Audit Office of NSW
- have a close personal or business relationship with a councillor or a person

who has a senior role in the council that may lead to a real or perceived conflict of interest

- 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 (or have a close family member who is) 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 which could be considered a real or perceived conflict of interest, or
- currently or have previously acted as an advocate of a material interest on behalf of the council or a related entity which could be considered a real or perceived conflict of interest.

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 chair and members of the audit, risk and improvement committee.

Likewise, the chair and members must notify the governing body and/or general manager if a real or perceived threat to their independence arises.

## Eligibility requirements

The persons appointed as a chair or a member of an audit, risk and improvement committee must possess the skills, knowledge and experience necessary to undertake their roles on the committee effectively and to ensure the committee is able to operate appropriately and effectively to support the council.

A poorly skilled audit, risk and improvement committee may not be able to provide the assurance needed by the council and may lead to sub-optimal outcomes that jeopardise the

council's capacity to achieve its strategic objectives.

**Councils must ensure that the chair and other members of the council's audit, risk and improvement committee meet the below eligibility criteria.**



## Prequalified members

In addition to meeting the independence requirements listed above, prequalified audit, risk and improvement committee voting members must be sourced from the NSW Government's prequalification scheme.

Individuals that have been prequalified under the scheme have been assessed by an independent expert panel convened by the NSW Government as having the skills, knowledge and experience to perform the role as a chair or member of a council's audit, risk and improvement committee.

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. To preserve their independence, and as a condition of the prequalification scheme, prequalified members can be appointed to up to (#tbc) separate audit, risk and improvement committees in the NSW public sector and the NSW local government sector.

## Non-prequalified members

In addition to meeting the independence requirements listed above, non-prequalified audit, risk and improvement committee voting members must satisfy the following eligibility criteria to be appointed as a committee member.

They must:

- have the qualities and personal attributes needed to serve the council effectively in their role as a committee member
- have a functional knowledge in areas that would provide a valuable contribution to the committee and council such as:
  - local government
  - internal audit and external audit
  - risk management
  - governance
  - performance management
  - financial management and reporting
  - accounting
  - human resources management
  - internal control frameworks
  - fraud and corruption prevention
  - IT/cyber security
  - the local community, or
  - another relevant subject matter, and
- undertake any training on the operation of audit, risk and improvement committees recommended by the chair based on their assessment of the skills, knowledge and experience of the committee member.

A member of an audit, risk and improvement committee must also demonstrate the following personal qualities and attributes:

- a commitment to the independence of their role
- integrity
- a capacity to dedicate sufficient time and energy
- financial literacy, including an ability to read or understand basic financial statements, ask pertinent questions about them, and interpret and evaluate answers
- an ability to give direct and honest opinions and offer different perspectives and constructive suggestions, and
- inquisitiveness and independent judgment.

Councils must undertake a criminal record and financial status (bankruptcy) check of an independent non-prequalified audit, risk and improvement committee member before their appointment.

## Councillor members

Non-voting councillor members must satisfy the following eligibility criteria to be appointed as an audit, risk and improvement committee member. They must:

- be financially literate
- have a good understanding of one or more of the following that would provide a valuable contribution to the committee:
  - internal audit and external audit
  - risk management
  - governance
  - performance management
  - financial management and reporting
  - accounting
  - human resources management
  - internal control frameworks
  - fraud and corruption prevention
  - IT/cyber security
  - the local community, or
  - another relevant subject matter, and
- undertake any training on the operation of audit, risk and improvement committees recommended by the chair based on their assessment of the skills, knowledge and experience of the committee member.

The mayor cannot be appointed as a councillor member on a council's audit, risk and improvement committee.

## Appointment

Audit, risk and improvement committee chairs and members are appointed by a resolution of the governing body of the council.

The governing body should first appoint the chair of the audit, risk and improvement committee, who is to then assist in the selection and appointment of the other independent committee members.

## Skills mix

When selecting individual audit, risk and improvement committee members, the

governing body of the council is required to ensure that the committee has the appropriate mix of skills, knowledge and experience to successfully implement its terms of reference and add value to the council.

The audit, risk and improvement committee should have:

- at least one member with financial expertise (for example, a qualified accountant or auditor or other financial professional with experience of financial and accounting matters), and
- a mix of skills and experience in:
  - business
  - financial and legal compliance
  - risk management, and
  - internal audit, and
  - any specialised business operations of the council, where the committee would benefit from having a member with skills or experience in this area (for example, IT skills or experience where IT systems have an important role in the council's business).

All audit, risk and improvement committee members should have sufficient understanding of the council's financial reporting responsibilities to be able to contribute to the committee's consideration of the annual financial statements.

Each individual should also have sufficient time to devote to their responsibilities as an audit, risk and improvement committee member. Where possible, the governing body should ensure that at least one other audit, risk and improvement committee member is also qualified to act as the chair, if this is ever required.

## Letter of appointment

The appointment of chairs and members of audit, risk and improvement committees should be formalised in an official letter of appointment signed by the mayor of the council.

The letter of appointment should set out the terms and conditions of the appointment including:

- duration of appointment
- role and responsibilities
- timing and location of meetings
- time commitment
- remuneration
- the management of conflicts of interest
- confidentiality
- performance appraisal, and
- termination of appointment.

## Induction

Induction of all new audit, risk and improvement committee members is vital to ensure they 'hit the ground running' in their role.

The chair is to provide a thorough induction to each new member of the audit, risk and improvement committee to ensure they understand:

- the committee's role, responsibilities and terms of reference
- the business, operations, culture, risks and controls of the council, and
- the expectations of the council about their responsibilities and performance.

This will include providing new members with any background information or documentation necessary to ensure they understand the work of the audit, risk and improvement committee.

It may also be appropriate for more detailed information or presentations to be provided from various senior staff to assist the new member to understand the operations of the council and any key challenges.

New audit, risk and improvement committee members also have an obligation to ensure that they have an appropriate understanding of the council, including its:

- operations, functions, service delivery
- key areas of risk
- internal controls, and
- financial reporting systems.

The mayor, general manager and existing chair (where appropriate) will induct a new chair.

## Membership terms

### Voting members

To ensure the audit, risk and improvement committee continues to offer new perspectives and remains independent, it is important that committee members are rotated periodically to maintain a fresh approach and avoid any perceptions of bias or conflicts of interest.

**Councils are to ensure that chairs and members serve the following time-limited terms to facilitate a rotation of knowledge and perspectives.**



The initial term of membership on an audit, risk and improvement committee is four-years (one council term).

Audit, risk and improvement committee members can be reappointed for a further term but the total period of continuous membership on the committee cannot exceed eight years (two council terms). 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 two-year break from serving on the audit, risk and improvement committee before being appointed again.

Care is to be taken to ensure that membership renewal dates are staggered so knowledge of the council's operations, financial reporting structure and other important aspects are 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.

### Exemptions

If a tier 1 council is unable to replace the chair or members of its audit, risk and improvement

committee when their maximum term limit has been reached, the council can seek the approval of the Secretary DPIE to extend their term or to reappoint the chair or committee member for a further term.

The council's request must:

- be in writing
- describe the efforts the council has made to appoint a different member, and
- explain why the council has been unsuccessful.

Exemptions will only be granted in exceptional circumstances.

## Chair

To ensure that the committee maintains a fresh approach, the initial term of a chair of an audit, risk and improvement committee on any one audit, risk and improvement committee is four-years (one council term).

The chair can be reappointed as chair for a further term but the total period served by a chair cannot exceed eight years (two council terms).

Where the chair's term expires and another chair is appointed, it is the responsibility of the outgoing chair to ensure the incoming chair is fully briefed on the ongoing work of the audit, risk and improvement committee.

This includes advising the incoming chair of:

- any activity that may be relevant to the ongoing functioning of the committee, and
- any outstanding matters of high risk to the council and outstanding audit recommendations.

## Councillor members

The initial term of a councillor member of an audit, risk and improvement committee is four years, coinciding with term of the council.

The councillor member can be reappointed for another term (i.e. four-years), if re-elected at the council's next ordinary election, but the total period of continuous membership on the

committee cannot exceed eight years (two council terms).

The councillor member is to be appointed by the governing body at the first meeting of the council after the ordinary election.

The councillor member's term ends at the end of the council term.

## Reappointment

Prior to approving the reappointment or extension of the chair or an independent member's term, the governing body of the council must undertake an assessment of the chair's or committee member's performance.

The council may engage an external reviewer to undertake this assessment if they choose.

In undertaking the assessment, the council, or any person appointed to undertake the assessment on behalf of the council, must consult with and consider the views of the chair (in the case of the reappointment or extension of the term of a committee member other than the chair), the general manager and any councillor member of the committee. The reappointment of members is also to be subject to the individual still meeting independence and eligibility requirements.

## Fees

The fees a council pays to its chair and independent voting members of its audit, risk and improvement committee are to be agreed by the council and the Chair or member and reflect the time, commitment and responsibility involved in serving on the committee.

Chairs and members can serve on a committee on a voluntary basis if they choose to.

Councils should consider the fees payable under the prequalification scheme when determining the fees paid to prequalified chairs and members.

## Superannuation

Councils are obliged under the *Superannuation Guarantee Administration Act 1992* to make compulsory superannuation guarantee contributions on behalf of audit, risk and improvement committee chairs and voting members

## Roles of committee members

### Chair

The position of the chair of an audit, risk and improvement committee is pivotal to the committee's effectiveness and is the focal point for the committee's relationship with the council, the internal audit function and external auditor.

The chair acts as the interface between the audit, risk and improvement committee and the general manager and other staff, the governing body, the external auditor, and the internal audit function.

Any individual audit, risk and improvement committee member who wishes to meet with the general manager or governing body of the council to discuss any issues relating to the committee's responsibilities is to do so through the chair of the committee, and vice versa.

To be successful in their role, a chair must:

- have strong leadership qualities
- have the personal courage to raise and deal with tough issues and express opinions frankly, and to support other committee members to do the same
- be able to recommend the appointment of committee members to the governing body
- maintain effective working relationships between committee members and with the council
- keep the governing body and general manager informed and brief them on the

strategic and technical aspects of internal audits and risk and control issues

- lead effective committee meetings including:
  - planning for and setting agendas for meetings, ensuring committee members are adequately informed of matters to be considered prior to meetings and allowing sufficient time for discussion of those matters at the meeting
  - ensuring the meeting runs smoothly and that the views of members are heard
  - focus the committee's deliberations on the most important issues
  - seek the input of advisers, observers and other experts to maximise committee deliberations
  - summarise discussion outcomes and actions, including assigning responsibility and timeframes for actions
- maintain an effective working relationship with the council's external auditor
- oversee the internal audit function and be alert to external accountability and internal audit concerns
- arrange for all committee members to maintain an up-to-date knowledge of the council and its activities, including any financial or regulatory developments, and
- know the strengths and weaknesses of the committee, and individual committee members and how this may affect the opinions of the committee.

### Independent members

Independent audit, risk and improvement committee members are expected to be able to assess information provided to them about the council and to identify and assess key risks and issues.

Each member should be capable of making a valuable contribution to the committee.

To be successful in their role, a member must:

- take a professional approach to their responsibilities, including an appropriate commitment of time and effort

- know the business, culture and values of the council and take the time to understand changes that affect how the council operates and its risks
- have sufficient understanding of the council's financial reporting responsibilities to be able to contribute to the committee's consideration of the annual financial statements
- understand the role of the committee and the expectations of the council
- act in the best interests of the council
- take a professional approach
- be a good communicator and build effective relationships with the council and other committee members, and
- have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry.

Issues or information councillor members raise with or provide the audit, risk and improvement committee must relate to the matters listed in section 428A of the Local Government Act, the committee's terms of reference and issues being considered by the Committee.

Councillor members of audit, risk and improvement committees are not entitled to receive information about audit, risk and improvement committee activities outside of established reporting requirements.

Councillor members of audit, risk and improvement committees must conduct themselves in a non-partisan and professional manner.

Councillor members of committees must not engage in any conduct that seeks to politicise the activities of the committee or the internal audit function or that could be seen to do so.

## Councillor members

Councillor members of audit, risk and improvement committees are non-voting members of committees. This is to ensure that decision making by the committee is independent of the council.

Councillor members of committees act as an important link between the governing body and the committee.

Their role is to:

- relay to the committee any concerns the governing body may have regarding the council and issues being considered by the committee
- provide insights into local issues and the strategic priorities of the council that would add value to the committee's consideration of agenda items
- advise the governing body (as necessary) of the work of the committee and any issues arising from it, and
- assist the governing body to review the performance of the committee each council term.

Where councillor members of audit, risk and improvement committees engage in such conduct or in any other conduct that may bring the committee and its work into disrepute, the chair may recommend to the council, that the councillor member be removed from membership of the committee.

Where the council does not agree to the chair's recommendation, it must give reasons for its decision in writing to the chair.

## Key relationships

### General manager

A key role of audit, risk and improvement committees is to act as an independent source of advice and opinion to both the governing body and the general manager, and to act as a forum for the resolution of any disagreements between the council and internal audit function.

The general manager, in turn, also has a key role in supporting the work and effectiveness of the audit, risk and improvement committee.

To be effective, audit, risk and improvement committees need to maintain a positive working relationship with the general manager (and vice versa) and view them as a significant source of advice and information about the council and its operations.

Chairs of audit, risk and improvement committees should meet regularly with general managers to discuss key issues and review performance.

## External audit

There are strong linkages between the work of councils' audit, risk and improvement committees and their external auditor and committees should actively engage with the external auditor.

Councils' external auditor can offer valuable insights on issues such as the effectiveness of the council's risk, controls, financial reporting, and compliance frameworks.

For the external auditor, communication with the audit, risk and improvement committee can in turn facilitate an effective and efficient audit and assist the communication of matters arising from the external audit to the council.

Audit, risk and improvement committees should:

- provide input on, and discuss, planned financial and performance audit coverage
- monitor councils' responses to financial statement management letters and performance audit reports, including the implementation of audit recommendations
- provide advice to the council on action taken on significant issues raised in relevant external auditor reports or better practice guides, and
- have a voting-members only meeting with the external auditor at least once per year so that the committee can obtain the views of the external auditor without internal audit or management advisers being present.

## Internal audit

The audit, risk and improvement committee should maintain a strong, positive relationship with the council's internal audit function and view it as a significant source of information about what is going on in the council.

The internal audit function can also assist the audit, risk and improvement committee to develop the annual and four-yearly workplans that will guide the committee's and internal audit function's work.

The chair of the audit, risk and improvement committee should routinely meet with council staff undertaking internal audit activities to discuss key issues and review performance if needed.

At least one private meeting should be held each year and any potential compromises to the internal audit activity's independence reported.

More information about this is provided in core requirement 3.

## Meetings

The audit, risk and improvement must meet at least quarterly over the course of each year.

The chair of the audit, risk and improvement committee is to decide the frequency and timing of the committee's meetings and plan them annually in advance to ensure the availability of all members and observers.

Generally, meetings should correspond with major phases of the council's financial reporting, external audit and internal audit cycles.

For example, the audit, risk and improvement committee should meet to review the council's financial statements before they are certified by the council.

Audit, risk and improvement committee meetings should also correspond with meetings of the governing body, and allow

sufficient time between audit, risk and improvement committee meetings and council meetings for the committee to action any items and prepare any reports that are to be provided to the governing body at the council meeting.

Special meetings may be held, if needed, to review the council's financial statements prior to them being submitted to the governing body of the council, or to consider the audit, risk and improvement committee's annual or four-yearly assessments.

Audit, risk and improvement committee meetings can be held in person, by telephone or videoconference.

The audit, risk and improvement committee can hold additional meetings when significant unexpected issues arise, or if the chair is asked to hold an additional meeting by a committee member or the general manager.

The governing body can also resolve to request the audit, risk and improvement committee to hold an additional meeting.

Where such a request is made, the chair can decide whether the additional meeting is required, taking into consideration the issues that the governing body has requested the audit, risk and improvement committee to consider at the meeting.

## Proxies

As audit, risk and improvement committee members are appointed on the basis of their skills, knowledge and personal qualities, proxies are not permitted to attend meetings on behalf of members who are unable to attend.

## Quorum

A quorum consists of a majority of audit, risk and improvement committee independent voting members.

Where the vote is tied, the chair is to have the casting vote.

## Agenda

### Forward agenda

The chair should prepare a 12-month forward meeting agenda to ensure that the audit, risk and improvement committee covers all its responsibilities at the appropriate time of the year.

For example, the forward agenda will set out, at the appropriate meeting, the various internal and external audit reports and management responses to be tabled and discussed.

It will also allocate appropriate time for a review of the progress of the internal audit function against the annual work plan, and to follow-up the implementation of corrective actions.

### Meeting agenda

The chair of the audit, risk and improvement committee is to determine the agenda for each committee meeting.

It is recommended that the chair consult with other committee members, the general manager, the head of the internal audit function and external auditor prior to setting the agenda so that any urgent issues or risks that arise can be included.

The chair of the audit, risk and improvement committee is to decide an appropriate timescale for receiving the final agenda in the lead-up to the meeting.

## Papers

The audit, risk and improvement committee is to decide in consultation with the general manager and the head of the internal audit function an appropriate timeframe for receiving papers and other necessary information to support agenda items to be considered at each committee meeting.

## Minutes

Each audit, risk and improvement committee meeting must be minuted to preserve a record of the issues considered and the actions and decisions taken by the committee.

Audit, risk and improvement committee meeting minutes must:

- include a record of attendance
- cover each agenda item and document the discussion held and the outcome or conclusion from the discussions, including any recommendations, action points and/or allocation of tasks to relevant people
- be approved by the chair before circulation
- be provided to committee members, the governing body of the council, the general manager, the head of the internal audit function and external auditor
- be provided soon after the meeting date to ensure relevant individuals are made aware of any significant issues discussed at the meeting that need to be dealt with. The exact time period is to be determined by the committee and the general manager.

The minutes must be confirmed as an accurate record of the meeting at the next meeting of the audit, risk and improvement committee.

If any important details have been incorrectly recorded or omitted, they can be discussed and the minutes amended prior to confirmation at a subsequent meeting.

After the minutes are confirmed as an accurate record of the meeting, they must be signed by the chair.

All audit, risk and improvement committee members and observers should receive a copy of the minutes of all meetings.

## Attendance of observers

Due to the sensitive nature of issues to be discussed, audit, risk and improvement committee meetings should not be open to the public.

In addition to audit, risk and improvement committee members, the general manager and the head of the internal audit function are to attend committee meetings as non-voting observers.

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 chair of the audit, risk and improvement committee can request the following people to attend a committee meeting or to meet with the committee in order to provide additional information relevant to its role:

- council's chief financial officer (or equivalent) given their knowledge of, and responsibility for, council's financial management
- the head of the council's risk management function
- senior managers
- any councillor
- 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 attend meetings where requested and, as far as is practicable, provide the information requested.

Observers have no voting rights at audit, risk and improvement committee meetings and can be excluded from a meeting by the chair of the committee at any time where necessary.

## Private meetings

The audit, risk and improvement committee can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the committee present.

In addition to attending audit, risk and improvement committee meetings, the committee can meet privately at any time with the head of the internal audit function and/or

external auditor without the general manager present. At least one private meeting must occur annually.

- ensuring new members receive appropriate induction, and
- managing expenditures relating to the committee.

## Confidentiality

It is at the discretion of the governing body of the council whether audit, risk and improvement committee agendas, business papers, minutes and other reports are made available to the public.

Given the sensitivity of information it is likely to contain, it is recommended that all information pertaining to the audit, risk and improvement committee and internal audit activities is to be treated as confidential unless otherwise determined by the committee or a resolution of the council.

## Shared arrangements

If the audit, risk and improvement committee has been established by a joint organisation, the executive officer of the joint organisation is responsible for organising secretariat support.

Councils that share their audit, risk and improvement committee can also share their secretariat function if they choose to.

## Secretariat

The general manager of a council is to appoint a council employee/s to provide secretariat support to the audit, risk and improvement committee.

The main functions of this role are:

- liaising with the chair to prepare agendas for audit, risk and improvement committee meetings
- ensure that committee papers are of an appropriate standard and provided with enough time to allow appropriate review and consideration
- recording minutes of meetings
- providing assistance to the chair in arranging meetings and council site visits
- supporting the chair to prepare reports for the council
- arranging appropriate meeting facilities and equipment
- keeping members abreast of developments affecting the council that may relate to the work of the committee
- maintaining a record of when member's terms of appointment are due for renewal or termination

## Access to council, staff, resources and information

It is essential for the audit, risk and improvement committee to be able to access the staff and information about the council it needs to review the matters listed in section 428A of the Local Government Act and the resources necessary to undertake its other responsibilities.

## Council staff

**A council's audit, risk and improvement committee must have direct and unrestricted access to the general manager and senior management of the council in order to fulfil its responsibilities.**



Should the audit, risk and improvement committee need to meet with another council staff member or contractor to obtain information to fulfil its role, the chair of the committee is to obtain permission from the general manager before inviting the staff member or contractor to meet with the Committee.

Subject to the general manager's permission being given, the staff member or contractor must attend.

Any disputes between the general manager and audit, risk and improvement committee regarding access to council staff are to be resolved by the governing body.

## Council resources and information

**A council's audit, risk and improvement committee must have direct and unrestricted access to any council resources or information it needs to fulfil its responsibilities.**



In its dealings with the council, the audit, risk and improvement committee should be mindful of the environment the council is operating in and the priorities that the general manager needs to manage.

The audit, risk and improvement committee should therefore keep to a minimum the demands it places on the council and utilise as far as is practicable, existing information to obtain the necessary level of assurance in relation to its responsibilities.

The audit, risk and improvement committee may only release council information to external parties that are assisting the committee to fulfil its responsibilities with the approval of the general manager, except when it is being provided to an external investigative, audit or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

After their engagement ends with a council, a chair or member of an audit, risk and improvement committee must not disclose or make use of any confidential information acquired in the course of their engagement with the council without the approval of the council.

## External advice

The audit, risk and improvement committee can obtain any external legal or other professional/expert advice it needs to exercise its responsibilities. For example, where a council has implemented a specialised IT system, the committee can seek the expert opinion of an IT specialist to assist its review of its implementation.

To minimise the potential costs to council, the governing body and the chair of the audit, risk and improvement committee must agree at the start of each council term how costs are to be met, i.e.:

- the governing body will set a fixed budget at the start of each council term for external expenses, or
- the committee will seek the governing body's permission prior to engaging external advice.

## Disputes

Members of an audit, risk and improvement committee should maintain an effective working relationship with each other and the council and try to resolve any differences they may have professionally.

In the event of a disagreement between the audit, risk and improvement committee and the general manager or other senior managers (for example, about findings or recommendations of audits), the dispute is to be resolved by the governing body of the council.

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Secretary DPIE in writing.

## Conduct

Audit, risk and improvement committee members are to be held to the same ethical and behavioural standards as other officials of

the council and must comply with the council's code of conduct.

As required under the council's code of conduct, audit, risk and improvement committee members (a well as any council officials attending as observers) must declare and appropriately manage any conflicts of interest they may have in matters being dealt with by the committee.

Declarations of conflicts of interest and the actions taken to manage them must be recorded in the minutes of meetings.

Councils should identify the chairs and members of audit risk and improvement committees as 'designated persons' for the purposes of the council's code of conduct and require them to complete and submit returns of their interests.

Complaints of breaches of the council's code of conduct by audit, risk and improvement committee members are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*.

Under the Procedures, the general manager is responsible for managing and resolving any code of conduct complaints made against audit, risk and improvement committee members.

However, to safeguard the independence of audit, risk and improvement committee members, the general manager must consult with the governing body of the council prior to taking disciplinary action against Committee members under the Procedures.

Prequalified audit, risk and improvement committee members are also required to comply with the code of conduct governing the prequalification scheme.

Any proven breaches of the council's code of conduct should be reported by the council to the administrator of the prequalification scheme so that action can also be taken under that scheme, where appropriate.

## Insurance

It is at each council's discretion whether professional indemnity and public liability insurance is required for chairs and members of audit, risk and improvement committee members.

In some cases, the chair or a member of an audit, risk and improvement committee may already be covered by the council's professional indemnity and public liability insurance policies or by their own insurance.

This will need to be ascertained by the council and chair or member on a case-by-case basis having regard to the terms of any relevant insurance policy.

Where a council determines that professional indemnity or public liability is absent but required, the chair or member can obtain their own insurance, or the council can consider obtaining it on their behalf.

## Learning and development

Audit, risk and improvement committee chairs and members are encouraged to keep informed of current developments and to maintain and develop the skills, knowledge and capabilities necessary to exercise their functions effectively.

Several professional development networks and programs are available, for example, through organisations such as:

- the Australian Institute of Company Directors
- Chartered Accountants Australia and New Zealand
- The Actuaries Institute, and the
- Local Government Professionals Association.

Audit, risk and improvement chairs and members are also encouraged to serve on more than one local government committee to

extend the breadth of their experience and understanding of councils and their operations and risks.

## Review of Committee performance

It is important that the work of each council's audit, risk and improvement committee is regularly assessed, and the committee is held accountable for its performance.

This will ensure that the audit, risk and improvement committee is providing a valuable contribution to the council and enable the governing body to determine whether any changes to the committee's terms of reference or membership are required.

**At least once each council term (i.e. four years) the governing body of the council is to conduct a review of the effectiveness of the audit, risk and improvement committee in conformance with the International Professional Practice Framework.**



This will ensure that audit, risk and improvement committees are assessed consistently across all councils and allow councils to have confidence in the work of their committees.

To conduct the review, the governing body can:

- engage a suitably qualified external assessor or peer to undertake the review, or
- undertake the review itself and engage an external assessor or peer to conduct an independent evaluation of the findings.

The external assessor or peer should have specific skills relevant to the major risks of the council and a strong understanding of what constitutes best practice in relation to the operations and performance of audit, risk and improvement committees.

## Review criteria

The review of the audit, risk and improvement committee's performance must consider:

- the appropriateness of the committee's terms of reference and whether these have been complied with
- the processes and procedures undertaken by the committee
- the collective performance of the committee – for example:
  - the quality and timeliness of assurance and advice provided by the committee to the governing body and general manager
  - the effectiveness of the committee in meeting its responsibilities
  - the relationship and quality of communication with the council and other stakeholders
- the individual performance of each member – for example, their:
  - understanding of the council, its key risk and internal controls
  - ability to act objectively and independently
  - preparation for committee meetings
  - contribution to the work of the committee through their participation in discussion and decision-making, skills and experience
- the performance of the chair, including whether the chair has (in addition to their performance as a member of the committee):
  - demonstrated positive leadership
  - maintained effective working relationships among audit, risk and improvement committee members and with the council, council's external auditor and the internal audit function
  - ensured the governing body and general manager was well informed and briefed on the strategic and technical aspects of internal audits and risk and control issues, and
  - lead effective committee meetings.
- 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

- whether the committee has effectively reviewed the factors identified in section 428A of the Local Government Act and contributed to an improvement in these areas, and
- whether the composition of the committee is appropriate and whether the council should be assigned to a different tier under these guidelines.

When conducting the review, the governing body is to consider feedback on each member's performance by the chair and councillor member of the committee and the general manager.

Self-assessments by the chair and members of the audit, risk and improvement committee can also be used.

The governing body of council is also able to request the chair of the Committee to address the council and answer any questions about the operation of the committee.

The chair of the audit, risk and improvement committee is to develop an action plan for the governing body of the council to address any issues identified in the performance review and present it to the governing body at the four-yearly assessment meeting.

- the chair and all members of the committee meet the eligibility and independence criteria required of their position, and have been appointed in accordance with prescribed membership term limits
- council's audit, risk and improvement committee operates according to terms of reference approved by the governing body of the council that are consistent with the approved Model Terms of Reference contained in these Guidelines
- council's audit, risk and improvement committee operates according to annual and four-yearly strategic plans endorsed by the governing body of the council
- council's audit, risk and improvement committee provides an annual assessment to the governing body each year, and a strategic assessment of all the matters listed in section 428A of the Local Government Act to the governing body each council term
- the council provides the committee with direct and unrestricted access to the general manager, senior management, council information and council resources so it can fulfil its responsibilities, and
- at least once each council term the governing body of the council reviews the effectiveness of the audit, risk and improvement committee.

## Annual attestation

It is important that councils are accountable to their communities for the efficacy of their internal controls and assurance mechanisms and the operations of their audit, risk and improvement committees.

The Local Government Regulation (clause #tbc) requires the general manager to attest each year in the council's annual report whether the council has complied with the following requirements in relation to its audit, risk and improvement committee, as detailed in these Guidelines:

- council's audit, risk and improvement committee is independent of the council and has three or more members according to the council's prescribed category as a tier 1, tier 2 or tier 3 council

Further information about annual attestation requirements is also detailed in the statutory framework section of these Guidelines.

## Resignation of committee members

Where the Chair or a member of an audit, risk and improvement committee is unable to complete their term, or does not intend to seek reappointment after the expiry of their term, they should give sufficient notice to the chair (in the case of a committee member) and the governing body (in the case of the chair) prior to their resignation to enable the council to ensure a smooth transition to a new committee member.

The notice period is to be agreed by the governing body of the council and the committee.

A member of an audit, risk and improvement committee should have the opportunity to have an exit meeting with the Chair to discuss their reason for leaving and to provide feedback on their experience serving on the committee as well as any other issues.

Resigning chairs should have the opportunity to have an exit meeting with the mayor and general manager (if appropriate).

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## Dismissal of committee members

The governing body of a council can terminate via resolution the engagement of the chair or any member of the audit, risk and improvement committee under certain circumstances before the expiry of their terms.

Dismissal of any independent chair or member is to be reported to the Office of Local Government.

## Prequalified members

A prequalified chair or member can be dismissed by the governing body before the expiry of their term where the chair or member has:

- breached the conditions of the prequalification scheme, or become ineligible under it
- breached the council's code of conduct
- performed unsatisfactorily or not to expectations, or
- declared, or is found to be in, a position of a conflict of interest which is unresolvable.

The council must also report the dismissal to the NSW government agency responsible for administering the prequalification scheme to ensure action can also be taken under the scheme, if necessary.

## Non-prequalified members

A non-prequalified independent member of the audit, risk and improvement committee can be dismissed by the governing body before the natural expiry of their term where the chair or member has:

- breached the council's code of conduct
- performed unsatisfactorily or not to expectations
- declared, or is found to be in, a position of a conflict of interest which is unresolvable
- been declared bankrupt or found to be insolvent
- experienced an adverse change in business status
- been proven to be in a serious breach of their obligations under any NSW legislation, or
- experienced an adverse change in capacity or capability.

## Councillor members

The position of a councillor member on an audit, risk and improvement committee can be terminated at any time by the governing body via resolution.

## Further resources

The following resources may be useful to councils seeking more information about the establishment and operation of their audit, risk and improvement committee.

This is not an exhaustive list but provides a useful starting point for councils that seek to better understand what audit, risk and improvement committees do, and how they can be supported to add maximum value to councils.

**[Audit Committees – A Guide to Good Practice \(3<sup>rd</sup> edition\)](#)** – Auditing and Assurance Standards Board, Australian Institute of Company Directors and The Institute of Internal Auditors-Australia (2017)

Provides a checklist to assess the performance of audit, risk and improvement committees and members.

**[Audit Committees – A Guide to Good Practice for Local Government](#)** – Victorian Government, Department of Planning and Community Development (2011)

Provides detailed information on the activities audit, risk and improvement committees can perform in relation to external audit, financial management, risk management and internal audit.

**[Audit Committee Guidelines – Improving Accountability and Performance](#)** – The State of Queensland (Queensland Treasury and Trade) (2012)

Provides sample:

- letter of appointment for audit, risk and improvement committee members
- self-assessment questionnaire for committee members, external peer review checklist and management feedback questionnaire when assessing committee performance, and
- committee meeting agenda.

**[Audit Committees \(RM-G2\)](#)** – Australian Government, Department of Finance

Provides a list of professional peak bodies councils could contact to source audit, risk and improvement committee members.

**[Chairing an Audit Committee](#)** – KPMG

Provides information about the role of audit, risk and improvement committee chairs, particularly in relation to:

- leadership, and
- managing the work of audit, risk and improvement committee members.

**[Code of Conduct: Audit and Risk Committee Chairs and Members](#)** – NSW Treasury (2015)

Outlines the conduct requirements and ethical standards of members and chairs under the prequalification scheme.

**[Dealing with Corruption, Fraud and the ICAC: the role of public sector Audit and Risk Committees](#)** – Independent Commission Against Corruption (2020)

Provides information about the role of audit, risk and improvement committees and risk management in relation to fraud and corruption.

**[Establishing a skills-based audit committee](#)** – Institute of Internal Auditors-Australia (2020)

Provides an analysis matrix template to assess the skills mix of an audit, risk and improvement committee when appointing committee members.

**[Guide for Audit & Risk Committees: Understanding Financial Statements](#)** – NSW Treasury (2017)

Provides information on activities audit, risk and improvement committee can undertake when reviewing financial statements.

**[How can audit committee members add value?](#)** – PriceWaterhouseCoopers (2011)

Provides a checklist for measuring the performance of audit, risk and improvement committees

**Internal Audit and Risk Management Policy for the General Government Sector (TPP-20-08) – NSW Treasury (2020)**

Provides information on the NSW public sector risk management and internal audit policy, including:

- the operation of shared audit, risk and improvement committees in the NSW public sector
- matters to consider when deciding whether to enter into a shared arrangement, and
- recommended content for shared use agreements.

**Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members – Guidelines for Members and Agencies – NSW Treasury (2020)**

Provides information on the operation of the prequalification scheme.

**Prequalification Scheme: Audit and Risk Committee Independent Chairs and Members – Scheme Conditions – NSW Treasury (2020)**

Provides information about the prequalification scheme's application process, including:

- the eligibility criteria for members and Chairs, and
- remuneration rates.

**Public Sector Audit Committees: Independent assurance and advice for Accountable Authorities – Australian National Audit Office (2015)**

Provides information about the role and functions of audit, risk and improvement committees, including:

- member roles and responsibilities
- how to foster good relationships between the council and committee, and
- checklists for:
  - secretariat actions
  - planning forward meeting agendas, and
  - assessing the performance of members.

**Service Delivery Review: A how to manual for local government (second edition) – Australian Centre of Excellence for Local Government (2015)**

Outlines the factors councils and audit, risk and improvement committees may consider when reviewing service delivery by the council.

**Setting up the Audit Committee – PriceWaterhouseCoopers (2011)**

Provides information on:

- how a council might assess the financial literacy of an audit, risk and improvement committee member, and
- best practice for inducting new committee members.

**The Role of the Audit Committee Chair – KPMG (2019)**

Provides information on the role of audit, risk and improvement committee chairs, particularly in relation to:

- running committee meetings, and
- overseeing risk management.

# Core requirement 2:

## **Risk management**

- Each council and joint organisation must implement a risk management framework that is consistent with current Australian standards for risk management



## Guiding principles for risk management

- Each council must accept responsibility and accountability for risk management in the council
- Each council has a risk management framework that is appropriate for that council and is consistent with the accepted Australian risk management standard
- Risk management is an integral part of all council management, operations, functions and activities and it is clear who is responsible for managing each risk
- Each council supports the development of a positive risk culture
- Councils regularly review their risk management framework and can flexibly adapt their risk management activities to suit their operations and risk profiles
- Each council is accountable to the community for complying with its statutory obligation to adopt and maintain a risk management framework.

## Standards

**Each council must manage its strategic and operational risks and implement a risk management framework that is consistent with the current Australian risk management standard and appropriate for the council's risks.**



It is recognised that each council will have different risk management requirements depending on its size, needs, budget, operational complexity and risk management maturity.

Councils have the flexibility under the Australian risk management standard to adapt the size, scope and delivery of their risk management framework provided it reflects the principles, key elements and processes set out in the standard for managing risks in any sized council or organisation.

Councils can adopt additional requirements that supplement those in the standard provided they do not conflict with the standard.

The current risk management standard at the time of the release of these Guidelines is AS ISO 31000:2018 Risk Management – Guidelines.

Under current licensing and copyright requirements, each council will need to purchase an individually licensed copy of AS ISO 31000:2018 from Standards Australia to obtain a full copy of the standard.

The following is a summary of the definitions, principles, key elements and process of AS ISO 31000:2018.

## Definitions

The definition of 'risk' and 'risk management' adopted by councils as part of their risk management framework will be the same as that adopted in the current Australian risk management standard.

At the time of printing, AS ISO 31000:2018 defines:

- risk as 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"*, and
- risk management as *"coordinated activities to direct and control an organisation with regard to risk"*.

## Principles

In summary, AS ISO 31000:2018 requires a council's approach to risk management to be based on the following eight specific principles to ensure it is effective:

- **integrated** - risk management is integrated into all council activities and decision-making processes
- **structured and comprehensive** - risk management is a structured and comprehensive process that achieves consistent and comparable results

- **customised** - the risk management framework and process are customised to the council
- **inclusive** - risk management is inclusive of all stakeholders and enables their knowledge, views and perceptions to be considered
- **dynamic** - risk management is dynamic and able to respond to changes and events in an appropriate and timely manner
- **best available information** - risk management decisions are based on the best available information and takes into account any limitations and uncertainties
- **human and cultural factors** - risk management takes into account human and cultural factors, and
- **continual improvement** - risk management is continuously and periodically evaluated and improved through learning and experience.

## Key elements

To achieve these principles, *AS ISO 31000:2018* requires each council to ensure its risk management framework demonstrates the following six elements:

### Leadership and commitment

*AS ISO 31000:2018* requires risk management to be supported by a positive culture that promotes and communicates risk management as part of everyday activities and decision-making.

The standard states that this culture can only exist when management (i.e. the governing body, general manager and senior staff) demonstrate strong leadership and commitment to risk management.

Practical measures the governing body and/or general manager can take under *AS ISO 31000:2018* to exhibit strong leadership in risk management are set out further below.

### Integration

*AS ISO 31000:2018* requires that risk management be fully integrated within a council and made part of the council's purpose, governance, leadership, strategy, objectives and operations.

Risk is to be managed in every part of the council's organisational structure and every council employee be responsible for managing risk.

### Design

*AS ISO 31000:2018* requires that the design of a council's risk management framework:

- is based on the unique needs, characteristics and risks of the council, and its external and internal context
- demonstrates the council's continual commitment to risk management
- assigns risk management roles, responsibilities and accountabilities within the council
- allocates appropriate council resources for risk management, and
- effectively documents and communicates risk management across the council.

### Implementation

*AS ISO 31000:2018* requires that each council implements its risk management framework by:

- developing a risk management plan that provides structure for how the council will implement its risk management policy and conducts its risk management activities, and
- ensuring the council's risk management activities are clearly understood and practiced.

The plan should identify decision makers for risk within the council and ensure risk management processes and arrangements are well understood by the council and practiced.

### Evaluation

*AS ISO 31000:2018* requires that each council regularly evaluates the effectiveness of its risk management framework and determines whether it remains suitable.

### Improvement

*AS ISO 31000:2018* requires that each council continually adapts and improves the design of its risk management framework and how it is integrated throughout the council to help the council move to a higher level of risk maturity.

### Process

*AS ISO 31000:2018* provides each council with a systematic process to identify, assess and prioritise risks, decide how they will be managed, and document and communicate them across the council.

The process defined in *AS ISO 31000:2018* consists of the following steps:

- defining the scope of the council's risk management activities to assist in planning the council's risk management approach
- establishing the internal and external context to ensure that the council understands the internal and external environment it operates in and how risk management will impact, and be impacted by these
- deciding the performance indicators the council will use to measure the effectiveness of its risk management framework and identify gaps between its actual and desired performance
- defining the council's risk criteria/appetite – that is, the amount and type of risk that the governing body is willing to take, or not take, in order to achieve its strategic plan and objectives
- conducting risk assessments to determine what risks need to be managed
- deciding risk treatment options
- developing risk treatment plans that document how controls will be implemented, and
- writing risk reports that will document and communicate the risk management

framework to all staff and be used by the council to regularly review the risk management framework.

## County councils and joint organisations

County councils and joint organisations have a lower risk profile than larger and more operationally complex general-purpose councils.

However, they are still responsible for the expenditure of public money, providing services (in the case of county councils), and delivering outcomes on behalf of their member councils and regions (in the case of joint organisations), and need to identify and manage risks appropriately.

Given their lower risk profiles, county councils and joint organisations can share the administration of their risk management framework with another council to reduce costs.

Alternatively, joint organisations can undertake the coordination and administration of their member councils' risk management frameworks on behalf of the councils.

Any shared risk management function must operate as an individual resource for each council in the shared arrangement and fulfil the statutory requirements for each council individually.

A shared risk management function should only be established and utilised by a county council or joint organisation where the shared function can maintain a high level of understanding and fulfilment of each council's risk management needs, as well as effective working and reporting relationships with the general manager and senior staff of each council in the shared arrangement.

Councils that establish a shared risk management function should develop and sign a formal agreement with the other councils in the shared arrangement which outlines how

the shared arrangement will operate and costs are shared.

## Resourcing

AS ISO 31000:2018 requires each council to ensure sufficient resources are allocated to implement the council's risk management framework and deliver the internal controls needed to ensure the council's risks are appropriately managed.

In practice, this responsibility will fall to the governing body and/or general manager of the council.

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 and/or general manager makes informed budgeting decisions, the audit, risk and improvement committee is to advise of the resources it considers that the council needs to effectively implement its risk management framework, having regard to any budgetary constraints facing the council and the council's operational environment.

## Roles and responsibilities

AS ISO 31000:2018 requires that each council assign risk management roles and responsibilities to all relevant roles within the council.

To ensure effective implementation, the standard also requires each council to

demonstrate strong leadership and commitment to risk management.

In practice, this will see the general manager, governing body and council staff take on the following responsibilities:

### Governing body – strategic leadership

Consistent with the governing body's strategic leadership role under section 223 of the Local Government Act, the governing body is responsible for setting the foundational elements of council's risk management framework and the 'tone at the top'.

This includes approving via resolution the council's risk criteria/appetite – a statement that conveys how much risk will be tolerated by the governing body in the pursuit of the strategic objectives for the council, and how risk is to be managed and decisions made within this context.

The council's risk criteria/appetite is to be approved in consultation with the audit, risk and improvement committee.

### General manager – operational leadership

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 has ultimate responsibility and accountability for risk management in the council.

The responsibility is also specified in the Local Government Regulation (clause #tbc).

This includes:

- overseeing the council's risk management framework and ensuring it is effectively communicated, implemented and reviewed regularly
- approving the council's risk management policy, plans and risk reports (where applicable)
- promoting and championing a positive risk culture

- assigning authority and accountability for risk management at appropriate levels and to appropriate staff in the council, and ensuring they are held accountable for these responsibilities
- annually attesting that council's risk management framework complies with statutory requirements (see below), 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 responsibility for key aspects of the council's risk management framework to a senior manager or group of senior managers established for this purpose.

The delegate would report to the general manager on risk management issues.

An example risk management policy is provided at **Appendix 5**.

## Risk management function – oversight and facilitation

Each council is to establish a risk management function 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 council's risk management function is a key support to the general manager in meeting their risk management responsibilities and reports directly to the general manager or their delegate.

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

Regardless of its structure and composition, the role and responsibilities of the risk management function should include:

- supporting the general manager 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 general manager or their delegate
- 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 its role, the risk management function needs to:

- 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.

### Dual responsibilities

It is important that the risk management function is independent of line management to reduce the potential for management influence on the risks that are reported on, and to ensure independence.

Where risk management oversight or facilitation activities are performed by council staff with other council responsibilities, the council must put safeguards in place 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 other council responsibilities the risk management function has, including reporting lines, responsibilities and expectations related to the role/s
- any potential issues or conflicts of interest arising from these other roles being formally documented and communicated to the committee
- risk management staff being prohibited from undertaking risk management evaluations and reviews in relation to the council operations they are responsible for, and/or
- the committee regularly assessing that the safeguards put in place are effective.

### Internal audit function – review and assurance

Council's internal audit function is responsible for reviewing and providing advice to the audit, risk and improvement committee and the council on the effectiveness of the council's risk management framework.

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 relation to 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 and 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/appetite
  - impose risk management processes
  - decide or implement risk responses, or
  - be held accountable for risk management activities.

### Audit, risk and improvement committee – advice and assurance

An audit, risk and improvement committee's role in relation to risk management is to support the governing body and general manager to ensure that the council's risk management framework is appropriate and operationally effective.

The breadth and depth of this assurance role is to be determined by the council and the audit, risk and improvement committee and could include:

- assessing whether risks at all levels are identified, assessed and reviewed regularly by the council

- being involved in the regular review of the council's risk register
- reviewing the integration of risk management into business planning and program implementation activities, and/or
- providing assurance in relation to the management of risk or governance arrangements on individual projects, programs or activities.

**Appendix 4** provides further examples of the activities the audit, risk and improvement committee could perform in relation to risk management.

## Review and reporting

### Quarterly reporting

Each council is to ensure its risk management framework is regularly monitored and reviewed to ensure it is relevant, effective and complies with the current Australian risk management standard.

Each council is to base its ongoing monitoring and review process on its own needs, however, this should include at a minimum, providing quarterly advice from the risk management function to the general manager or their delegate.

This will ensure that risks are being correctly identified, prioritised and treated, and any emerging problems are known and rectified quickly.

### Annual assessment

Each council's risk management function is to conduct an annual self-assessment of the council's risk management framework.

The annual self-assessment is to report to the general manager whether the council's risk management framework:

- complies with statutory requirements
- is sufficiently resourced
- operates effectively, this includes whether:

- the internal control framework appropriately reflects the council's risk criteria/appetite
- 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 are current and appropriate
- 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.

The general manager should discuss the annual assessment of the council's risk management function with the governing body and audit, risk and improvement committee at the council's strategic assurance meeting held each council term.

### Strategic assessment

The Local Government Regulation (clause #tbc) requires that a council's audit, risk and improvement committee keep the implementation of a council's risk management framework under review and provide advice to the council on its implementation.

**A council's audit, risk and improvement committee must provide an assessment of the effectiveness of the council's risk management framework to the governing body each council term, as part of the committee's four-yearly strategic assessment.**



As part of the audit, risk and improvement committee's assessment of the council's risk management function, it should consider whether:

- the council is providing sufficient resources for risk management
- the council's risk management framework complies with statutory requirements, and
- the council's risk management framework operates effectively, is being complied with and supports the achievement of the council's strategic goals and objectives

The general manager is to develop an action plan for the governing body to address any risk management issues identified by the committee.

The audit, risk and improvement committee and general manager should discuss the strategic assessment and action plan with the governing body at the council's strategic assurance meeting held each council term.

## Performance measures

To ensure the effectiveness of council's risk management activities can be regularly monitored and reviewed, each council must ensure that it:

- assigns performance targets to risk management activities that can be measured against goals and objectives, and
- can obtain the data needed to measure the impact of the council's risk management framework.

## Annual attestation

The Local Government Regulation (clause #tbc) requires the general manager to attest each year in the council's annual report whether the council has complied with the following requirements in relation to its risk management activities:

- council has adopted a risk management framework that is consistent with current Australian risk management standards and appropriate for the council's risks, and
- the council's audit, risk and improvement committee reviews the implementation of the council's risk management framework and issues an assessment of the effectiveness of the council's risk management framework to the governing body each council term.

Further information on annual attestation requirements is provided in the statutory framework section of these Guidelines.

## Further resources

The following resources may be useful to councils seeking more information about the establishment and operation of their risk management framework. They provide examples, checklists, samples, templates and other practical tools councils could use.

This is not an exhaustive list but provides a useful starting point for councils that seek further information.

### **[A Guide to Risk Management – The State of Queensland \(Queensland Treasury\) \(2020\)](#)**

Provides guidance on how to apply the Australian risk management standard, including checklists for each stage of the risk management process.

### **[AS ISO 31000:2018 Risk Management – Guidelines – International Standards Organisation \(2018\)](#)**

The current Australian risk management standard at the time of printing (for purchase from the International Standards Organisation)

### **[Audit Committee Guidelines – Improving Accountability and Performance – The State of Queensland \(Queensland Treasury and Trade\) \(2012\)](#)**

Provides checklists of the matters audit, risk and improvement committees are to consider when reviewing a council's risk management framework and internal controls.

### **[Dealing with Corruption, Fraud and the ICAC: the role of public sector Audit and Risk Committees – Independent Commission Against Corruption \(2020\)](#)**

Provides information about the role of risk management in relation to fraud and corruption.

### **[Risk Management Toolkit for Public Sector Agencies \(TPP 12-03\) – NSW Treasury \(2012\)](#)**

Consists of three parts:

- Executive Guide (TPP 12-03a)
- Volume 1 – Guidance for Agencies (TPP 12-03b), and
- Volume 2 – Templates, Examples and Case Study (TPP 12-03c).

Provides detailed and practical advice on the various elements of the Australian risk management standards (ISO 31000), templates and worked examples.

### **[The Three Lines of Defense in Effective Risk Management and Control – Institute of Internal Auditors \(2013\)](#)**

Outlines the three lines of defence approach to risk management and the role of management and internal audit in risk management.

### **[The Role of Internal Auditing in Enterprise-Wide Risk Management – Institute of Internal Auditors](#)**

Outlines what enterprise risk management is, how it can be implemented and the role of internal audit in risk management.

### **[Victorian Government Risk Management Framework Practice Guide – Victorian Managed Insurance Agency \(2016\)](#)**

Provides guidance on how to apply the Australian risk management standard, including examples of a risk appetite/criteria statement.

# Core requirement 3:

## Internal audit

- Each council and joint organisation must have an independent internal audit function that reports to the audit, risk and improvement committee and is consistent with current international standards for internal audit

## Guiding principles for internal audit

- The internal audit function operates independently and with appropriate expertise in a manner that is appropriate for the council.
- The internal audit function has access to all council information necessary to fulfil its role and responsibilities
- The internal audit function is appropriately positioned in the council's governance framework to ensure its work complements the work of other internal and external assurance providers
- The internal audit function has a comprehensive work plan linked to the council's strategic objectives and current and emerging risks
- The audit, risk and improvement committee receives relevant and timely advice from the internal audit function to ensure the committee can fulfil its role and responsibilities
- The internal audit function operates in a manner consistent with accepted international standards
- The work of the internal audit function is thoroughly planned and executed, risk-based, client-focused and linked to the council's strategic goals
- The internal audit function adds value to the council and is held accountable by the committee and governing body for its performance, and
- Each council is accountable to the community for the effective implementation of its internal audit function.

Internal audit is defined in the International Professional Practices Framework issued by the Institute of Internal Auditors as '*an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes*'.

**A council's internal audit function must operate independently of the council and internal audit activities cannot be subject to direction by the council.**



**To ensure that the internal audit function remains independent from council management it must have a dual reporting line that reports:**



- **administratively to the general manager or a sufficiently senior role in the council to ensure the internal audit function fulfils its responsibilities, and**
- **functionally to the audit, risk and improvement committee.**

## Resourcing

The governing body and general manager of the council must ensure that the council's internal audit function is sufficiently resourced to effectively carry out its work. The chair of the audit, risk and improvement committee should be consulted on the resourcing required.

The audit, risk and improvement committee's resourcing recommendations are to be minuted by the committee.

## Independence

**Each council in NSW, (including county council and joint organisation) must have an internal audit function to provide an independent unbiased assessment of the council's operations and risk and control activities.**



## Internal audit charter

It is important that council's internal audit function has clear guidance on how it should serve the audit, risk and improvement committee and the council, and that the committee and council has input into how the internal audit function will operate.

This will ensure there is no ambiguity between the audit, risk and improvement committee, the council or the internal audit function and that the performance of the internal audit function can be assessed.

**The Local Government Regulation (clause #tbc) requires each council to adopt an internal audit charter, consistent with the approved Model Internal Audit Charter (Appendix 6), to guide how internal audit will be undertaken by the council and measure its effectiveness.**



The internal audit charter is to be developed by the audit, risk and improvement committee in consultation with the general manager and the head of the internal audit function and approved via resolution by the governing body of the council.

The Local Government Regulation (clause #tbc) allows councils to include additional provisions in their internal audit charter so long as they are not inconsistent with the approved Model Internal Audit Charter.

The audit, risk and improvement committee is to review the council's internal audit charter annually in consultation with the general manager and the head of the internal audit function.

## Role of the general manager

Consistent with their role under the Local Government Act (section 355) to conduct the day-to-day management of the council, the general manager has administrative

responsibility for internal audit under the Local Government Regulation (clause #tbc).

This means that the general manager is responsible for:

- advising the governing body on the resources required for the effective functioning of the internal audit function
- ensuring appropriate administrative support is provided to support the work of the internal audit function - for example, access to council's human resources networks, payroll, work health and safety, office facilities and resources, council information etc
- ensuring that the internal audit function is appropriately positioned within the council to work with external bodies and internal business units and fulfil its role and responsibilities
- ensuring the internal audit function complies with the International Professional Practices Framework, and
- annually attesting, on behalf of the council, that the council is fulfilling its statutory obligations in relation to internal audit.

The general manager has no role in the performance of the internal audit function - for example, the conduct of internal audits, the audit techniques used, or the reporting of internal audit findings to the audit, risk and improvement committee.

## Delegation

The general manager can, in consultation with the governing body of the council and the audit, risk and improvement committee, delegate their functions in relation to the oversight of the council's internal audit function to another role in the council that is sufficiently senior to ensure the internal audit function meets its responsibilities.

In making a delegation, consideration should be given to how the delegation will influence the internal audit function's ability to achieve the internal audit charter given the:

- seniority and expertise of the delegate and demands placed on them by their other roles and responsibilities in the council

- support available to the delegate to successfully execute their delegation in relation to internal audit
- complexity of the council's core business
- risk profile of the council
- expectations of stakeholders, and
- likely demands placed on the internal audit function.

## Role of the audit, risk and improvement committee

Under the Local Government Regulation (clause #tbc), the audit, risk and improvement committee exercises functional oversight of a council's internal audit function to ensure it operates independently from the council.

This means that the audit, risk and improvement committee is responsible for:

- assisting the governing body to identify the resources necessary for the effective functioning of the internal audit function
- setting the annual and four-yearly work plans for the internal audit function, including the audits that will be completed
- assessing the findings and recommendations of completed audits and providing the committee's advice and opinion on issues raised to the general manager and governing body of the council
- developing the internal audit charter that will guide the work of the internal audit function and how it operates, and
- reviewing the performance of the internal audit function.

## Structure

Each council will have different internal audit function requirements depending on the council's size, needs, budget and operational complexity and can either:

- establish an internal audit function for their own exclusive use, or
- share their internal audit function with another council, county council or joint organisation.

For cost and administrative efficiency, councils are also able to:

- establish an in-house internal audit function comprising of council staff/contractors, and/or
- outsource their internal audit function to an external provider/s – for example, a private sector accounting firm, internal audit firm, internal audit contractor etc.

These options will assist councils, county councils and joint organisations:

- to establish their internal audit function in the most cost-effective way
- in remote locations that may find it difficult to appoint or retain the staff necessary to support a stand-alone internal audit function
- to access a larger resource pool than would be available to a single council, and
- create efficiencies through common systems, shared knowledge and internal audit tools.

When deciding the most appropriate way to structure a council's internal audit function, the general manager should consider the viability and capacity of a shared internal audit function to achieve the council's internal audit charter 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
- expectations of stakeholders, and
- likely demands placed on the internal audit function by other councils in the shared arrangement.

**Whatever structure is adopted, the head of a council's internal audit function must:**



- **be a council employee and cannot be outsourced, other than through a shared arrangement with another council, and**
- **meet the eligibility and independence criteria for the position.**

This is to ensure that the council retains strategic control of the internal audit function and can actively monitor its performance.

## County councils

County councils may enter into a shared arrangement with one of their constituent councils or another county council.

## Joint organisations

Joint organisations that do not host a shared internal audit function for the use of their member councils can enter into a shared arrangement with a member council.

## In-house internal audit function

An in-house internal audit function is where internal auditors and other staff (where required) are employed by the council to conduct the internal audits and other activities in the audit, risk and improvement committee's annual and four-yearly strategic work plan.

The advantages of establishing an in-house internal audit function may include:

- council retaining ownership of internal audit information
- confidentiality of sensitive information contained in audits
- stronger direction and oversight by the council of the internal audit function with more direct control over the quality of audits conducted

- internal auditors having council-specific knowledge and experience that delivers better audit results
- greater agility to respond quickly to emerging issues, and
- the retention of corporate knowledge within the council.

Disadvantages may include:

- challenges attracting and retaining suitable staff
- specialist skills may not be available in-house
- reduced flexibility, and
- the need to provide council facilities and office space for internal audit personnel.

Councils that establish an in-house internal audit function are not limited to employing staff members and can supplement the internal audit team's work with audits undertaken by external providers where necessary.

Councils that have been categorised as a tier 2 or tier 3 council are encouraged to establish an in-house internal audit function given their:

- significant assets
- higher risk profiles
- higher levels of expenditure, and
- more complex transactions and operations.

## Head of an in-house internal audit function

Each council's internal audit function must be led by a staff member with sufficient skills, knowledge, experience and integrity to ensure it undertakes its role appropriately, meets its responsibilities to the audit, risk and improvement committee and makes a valuable contribution to the council.

The head of an in-house internal audit function (described as the 'chief audit executive' in the International Professional Practices Framework) also needs to report to the general manager or a sufficiently senior role in the council that ensures the internal audit function fulfils its responsibilities.

For some councils with larger budgets and higher risks, the head of the internal audit function will require the support of a dedicated internal audit team to fulfil the internal audit charter.

For other smaller councils, their size and risk profile may not justify additional internal audit staff and the head of the internal audit function will be sufficient.

The head of the internal audit function may also have other council responsibilities outside of internal audit.

### Role and responsibilities

For all in-house internal audit functions, regardless of size, the key responsibilities of the head of the internal audit function include:

- managing the day-to-day activities of the council's internal audit activities to ensure they add value to council
- managing the council's internal audit budget
- supporting the operation of the audit, risk and improvement committee
- approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the committee
- monitoring the council's implementation of corrective actions that arise from the findings of audits
- fulfilling the committee's annual work plan and four-yearly strategic plan
- ensuring the council's internal audit activities comply with statutory requirements
- managing internal audit personnel and ensuring that they have the skills necessary to fulfil the role and responsibilities of the internal audit function (where appropriate), and
- contract management and oversight of supplementary external providers (where appropriate).

### Eligibility criteria

To fulfil these responsibilities, the head of the internal audit function:

- must be a council employee and cannot be outsourced, other than through a shared arrangement with another council – this is to ensure that the council retains strategic control of the internal audit function and is able to actively monitor the performance of the internal audit function
- must be independent, impartial, unbiased and objective when performing their work and free from conflicts of interest
- should possess the following skills, knowledge and experience to effectively carry out their role:
  - the credibility to ensure they can negotiate on a reasonably equal footing with the general manager (or their delegate), governing body and audit, risk and improvement committee
  - the skills, knowledge and personal qualities necessary to lead credible and accepted internal audit activities in the council
  - strong experience overseeing internal audit
  - appropriate qualifications and professional certifications, and
  - local government experience (preferred).

The head of the internal audit function must also operate and conduct their internal audit activities in accordance with the International Professional Practices Framework, including its Code of Ethics.

As a council employee, the head of the internal audit function must comply with all relevant council policies and procedures as required by other council staff members, including the council's code of conduct.

### Independence

It is important that the head of an in-house internal audit function has the functional independence to ensure that this role has the freedom necessary to independently assess and report on the way council operates.

As a safeguard, the Local Government Regulation (clause #tbc) requires the general manager to consult with the chair of the audit, risk and improvement committee before

appointing or changing the employment conditions of the head of the internal audit function (including disciplinary measures).

Where dismissal occurs, the general manager must report to the governing body advising of the reasons why the head of the internal audit function was dismissed.

Where the chair of the audit, risk and improvement committee has any concerns about the treatment of the head of the internal audit function, or any action taken that may compromise the head of the internal audit function's ability to undertake their functions independently, they can report their concerns to the governing body of the council.

The head of the internal audit function is required to confirm at least annually to the audit, risk and improvement committee the independence of internal audit activities from the council.

### Access to council staff and information

**All internal audit personnel, including the head of an in-house internal audit function have direct and unrestricted access to council staff, the audit risk and improvement committee and council information and resources necessary to undertake their role and responsibilities.**



All council staff and contractors should have unrestricted access to the head of the internal audit function to allow them to alert them to emerging risks or internal audit related issues.

### Internal audit team

Any other staff members appointed to council's in-house internal audit function report directly to the head of the internal audit function.

As council employees, internal audit staff must comply with all relevant council policies and procedures including the council's code of conduct.

In-house internal auditors must also conduct internal audit activities in accordance with the International Professional Practices Framework.

Internal audit should be performed by professionals with an appropriate level of understanding of the council's culture, systems and processes to provide assurance that the internal controls in place are sufficient to mitigate the risks, that the governance processes are adequate and that organisational goals and objectives are met.

In-house internal auditors should therefore possess the following skills, knowledge and experience to effectively carry out their role:

- the skills, knowledge and experience necessary to conduct internal audit activities in the council – for example:
  - accounting
  - finance
  - economics
  - governance
  - management
  - law
  - taxation
  - fraud and corruption
  - IT
- effective interpersonal and communication skills to ensure they can partner with council staff effectively and collaboratively
- honesty, integrity and due diligence, and
- appropriate qualifications and professional certifications.

Local government experience or expertise is also strongly preferred.

### Dual responsibilities

To ensure the internal audit function's independence and objectivity, it is best practice that the head of the in-house internal audit function and any other members of an in-house internal audit team have no other council responsibilities other than internal audit.

However, it is recognised that some councils may find it difficult to employ a stand-alone head of an in-house internal audit function or other supporting internal auditors due to the

cost involved, the council's location and/or that the size of the council's operations and risk profile or the council's organisational structure may not warrant stand-alone employees.

Councils can therefore combine the head of the internal audit function's role and/or the role of a member of the internal audit team with another council role or responsibilities 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.

An internal audit role must not be combined with the role of the general manager, chief financial officer or risk management function as it will create conflicts of interest that cannot be resolved.

Councils can also share their head of the internal audit function with another council, county council or joint organisation as part of a shared arrangement.

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

- any potential issues or conflicts of interest arising from a dual role being formally documented in council's internal audit charter
- the audit, risk and improvement committee, or another suitably qualified and independent party, reviewing internal audit briefs, findings and recommendations before they are finalised where they concern any key risks overseen by the head of the internal audit function or internal audit team member in another role
- the head of the internal audit function or an internal audit team member not having responsibility for managing any risks or implementing any audit recommendations or corrective actions in their other role/s, and/or
- the committee including an assessment of the independence and objectivity (for internal audit purposes) of the head of the internal audit function or any internal audit team members with a dual role in their

annual assessment report to the governing body.

The endorsement of the governing body, in consultation with the audit, risk and improvement committee is also required before any combined roles can commence.

Where the head of the internal audit function has a dual role in a council, they are to remain independent and report functionally to the audit, risk and improvement committee on their internal audit responsibilities.

For other council responsibilities, the head of the internal audit function reports functionally through normal council reporting lines to the general manager.

## Outsourced internal audit function

Where a council outsources their internal audit function, the internal audits required by the audit, risk and improvement committee are undertaken by an external provider such as an internal audit or accounting firm, or an individual practitioner.

Contract management is overseen by an employee within the council.

The advantages of using external providers for internal audit activities may include:

- flexibility
- access to a wide range of expertise and experience, especially outside of local government and provide expertise the council may not have
- provides a window to better practice methods that small councils may find difficult to access
- the ability to purchase services as and when required
- can increase internal audit's independence from the council
- overcoming challenges recruiting a head of an internal audit function or internal audit staff, and
- potential to negotiate lower fee-for-service costs.

Disadvantages may include:

- increased costs
- potential loss of corporate knowledge from the council
- difficulty building and maintaining professional relationships between council management and external contractors
- reduced oversight and control of internal audit activities
- additional in-house staff time required to source and manage external providers and contracts
- the external provider lacking council-specific knowledge
- internal audit coordinator is unlikely to be audit trained and may not have the knowledge to ensure audit quality is maintained, and
- potential confidentiality breaches.

Given their size, resources, geographical isolation, risk profiles and complexity of operations, tier 1 councils are encouraged, at a minimum, to establish an outsourced internal audit function.

### Head of an outsourced internal audit function

Compared to the head of an in-house internal audit function which personally conducts or supervises internal audits and provides their personal opinions and recommendations to the audit, risk and improvement committee, the head of an outsourced internal audit function will, in practice, primarily be a coordination and administrative role.

The key responsibilities of any council staff member assigned responsibility for leading an outsourced internal audit function is to include:

- contract management
- managing internal audit budget
- ensuring the external provider completes internal audits in line with the audit, risk and improvement committee's annual plan and four-yearly strategic plan
- forward audit reports by the external provider to the committee
- act as a liaison between the external provider and the committee

- monitoring the council's implementation of corrective actions that arise from the findings of audits and reporting progress to the Committee, and
- assisting the committee to ensure the council's internal audit activities comply with statutory requirements.

To fulfil these responsibilities, the head of an outsourced function:

- reports functionally to the audit, risk and improvement committee
- must be free from conflicts of interest
- must be a council employee and cannot be outsourced, other than through a shared arrangement with another council, county council or joint organisation - this is to ensure that the council retains control of the internal audit function and is able to actively monitor the performance of the external provider
- should possess the following skills, knowledge and experience to effectively carry out their role:
  - a good understanding of the work of audit, risk and improvement committees and internal audit, and
  - the skills, knowledge and personal qualities necessary to manage the council's contract with the external provider and liaise between the external provider and the audit, risk and improvement committee.

As a council employee, the head of an outsourced function must comply with all relevant council policies and procedures as required by other council staff members, including the council's code of conduct.

### Dual responsibilities

The head of an outsourced internal audit function can be assigned other roles and responsibilities in the council.

Where the head of an outsourced function has a dual role in a council, they are to remain independent and report functionally to the audit, risk and improvement committee in relation to their internal audit responsibilities.

For other council responsibilities, the head of an outsourced function reports functionally through normal council reporting lines to the general manager.

Councils can combine the head of an outsourced function's role with another council role or responsibilities provided that there are adequate safeguards put in place by the council to limit any real or perceived bias or conflicts of interest.

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

- any potential issues or conflicts of interest arising from a dual role being formally documented in council's internal audit charter
- the audit, risk and improvement committee endorsing the dual roles before they can commence
- the head of the outsourced function not having responsibility for managing any risks or implementing any audit recommendations or corrective actions in their other role/s, and/or
- the committee including an assessment of the independence and objectivity (for internal audit purposes) of the head of the outsourced function in their annual assessment report to the governing body.

## External provider/s

It is important that any external provider engaged by a council is independent and can objectively assess and report on the way council operates.

To ensure the independence of an external provider, the head of the outsourced function is to ensure the external provider:

- does not conduct any audits on specific council operations or area that they have worked on within the last two years
- is not the same auditor conducting the council's external audit
- is not the auditor of any contractors of the council that may be possibly subject to the internal audit, and

- is able to meet the council's statutory internal audit obligations.

The head of the outsourced function must also consult with the audit, risk and improvement committee and general manager regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by the council.

## Chair of the audit, risk and improvement committee

The chair of an audit, risk and improvement committee that oversees an outsourced internal audit function is likely to have greater responsibilities than that of an in-house internal audit function.

As the head of an outsourced function is largely a coordination/administrative role, committee members, and in particular the chair of the Committee, will do the 'heavy lifting' and be the primary source of advice on the findings and recommendations of audits conducted by the external provider and assurance to the council.

Councils that establish an outsourced internal audit function must ensure that their audit, risk and improvement committee has the capacity and capability to undertake this increased role.

## Shared internal audit function

Under the Local Government Regulation (clause #tbc) councils can:

- share an internal audit function with another council or joint organisation as part of an independent shared arrangement
- utilise the internal audit function established by their joint organisation that is shared by member councils
- for county councils - share an internal audit function with a constituent council, or

- for joint organisations - share an internal audit function with a member council.

Councils can establish an in-house or outsourced internal audit function as part of a shared arrangement.

A shared internal audit function must operate as a standalone internal audit function for each participating council in the shared arrangement and satisfy statutory requirements for each participating council.

A shared internal audit function should only be established and utilised where all participating councils can be confident that the shared function can deliver a high level of understanding and fulfilment of each council's internal audit needs and maintain effective working and reporting relationships with each participating council in the shared arrangement.

Councils that establish a shared internal audit function should develop and sign a formal agreement with the other councils in the shared arrangement which outlines how the shared arrangement will operate and how costs will be shared.

## Implementation

Given the administrative complexity of an internal audit function shared between councils and reporting to multiple governing bodies and general managers, the following arrangements are recommended:

- the internal audit function is hosted by one of the councils, county councils or joint organisations in the shared arrangement
- the head of the internal audit function and any other internal audit team members are employees of the host council
- the head of the internal audit function reports administratively to the general manager (or their delegate) of the host council, and
- the general manager of the host council can only appoint or dismiss the head of the internal audit function in consultation with the general managers and audit, risk and improvement committees of each participating council.

For internal audit functions established by joint organisations and shared between member councils it is recommended that:

- the internal audit function is physically located at the offices of the joint organisation or a member council
- the head of the internal audit function reports administratively to the executive officer of the joint organisation
- the head of the internal audit function and any internal audit staff are employees of the joint organisation, and
- the Executive officer of the joint organisation can only appoint or dismiss the head of the internal audit function in consultation with the general managers and audit, risk and improvement committees of each member council.

## Head of a shared internal audit function

### In-house function

The head of a shared in-house internal audit function needs to be able to:

- liaise with the governing body and general manager of each participating council about that council's internal audit activities
- implement the annual work plan and four-yearly strategic plan for each council
- conduct or oversee the individual audits of each council and monitoring the implementation of corrective actions
- manage any contractual arrangements with external providers on behalf of each council (where required)
- attend the audit, risk and improvement committee meetings of each respective council on behalf of that council, and
- maintain separate and confidential information for each council.

### Outsourced function

The head of a shared outsourced internal audit function needs to be able to:

- manage contracts with external providers on behalf of all councils in the shared arrangement

- liaise with the audit, risk and improvement committee and general manager of each council
- coordinate the completion of audits by the external provider in line with each council's annual plan and four-yearly strategic plan
- provide audit reports by the external provider to the relevant committee and general manager and coordinate council responses
- monitor the implementation by each council of corrective actions that arise from the findings of audits and reporting progress to the committee
- assist each council's committee to ensure the council's internal audit activities comply with statutory requirements, and
- maintain separate and confidential information for each council.

The internal audit tools, techniques and methodologies used by the internal audit function must 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 consistently with the current Australian risk management standard.

## Audit reports

The head of the internal audit function must provide the findings and recommendations of internal audits to the audit, risk and improvement committee at the end of each audit.

The audit, risk and improvement committee will determine whether audit reports should be distributed to committee members out-of-session as they are completed, or at each quarterly meeting of the committee.

Each internal audit report written must reflect the requirements of the International Professional Practices Framework.

This includes:

- 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 have been prioritised according to risk, and
- a response or action plan from the general manager and/or responsible senior managers of the council.

The head of the internal audit function must 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.

## Workplans

**The work of each council's internal audit function will be guided by the strategic four-yearly workplan and annual workplan developed by the audit, risk and improvement committee (see core requirement 1).**



## Performing internal audits

It is essential that a council's internal audit function performs the council's internal audits to a high and consistent standard and that the findings and recommendations that arise from audits can be relied upon by the audit, risk and improvement committee and the council.

**Each council's internal audits must be performed in accordance with the requirements of the International Professional Practices Framework.**



The audit, risk and improvement committee must agree with the general manager the maximum time period the general manager has 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 should discuss their position with the head of the internal audit function or the chair of the audit, risk and improvement committee 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 are 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 head of the internal audit function is provided regular updates, or as otherwise reasonably requested, 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 with the general manager and in the committee's quarterly report to the governing body so that they are aware of the risks posed to the council.

## Ongoing monitoring

The head of the internal audit function should establish an ongoing monitoring system to track the internal audits undertaken for the

council and follow-up council's progress in implementing corrective actions.

Compliance with regulatory requirements and internal audit standards could also be included as part of ongoing monitoring and self-assessment.

If necessary, any problems identified must be reported to the audit, risk and improvement committee and general manager to ensure they can be rectified quickly before their consequences escalate.

The audit, risk and improvement committee can raise any concerns it has that may arise between meetings with the governing body via an additional report where needed. The chair of the committee can also request to meet with the mayor.

This will ensure that the governing body is fully aware of significant emerging risks posed to the council.

## Policies and procedures

The general manager, in consultation with the audit, risk and improvement committee, must develop and maintain policies and procedures to guide the operation of the council's internal audit function and the performance of internal audits.

These policies and procedures could include:

- the structure and resourcing of the internal audit function
- how internal audits will be conducted, reported, implemented and monitored
- audit methodology
- timeframes for reporting and council's response to recommendations
- how any internal audit-related disputes will be resolved
- the internal audit function's access to council staff, resources and information
- how the performance of the internal audit function will be reviewed
- communication between the audit, risk and improvement committee and internal audit function, and the internal audit function and the general manager, and

- information management including document retention, security and access to audit reports.

for consideration and action before their consequences escalate.

## Providing advice to the audit, risk and improvement committee

Ongoing reporting to the audit, risk and improvement committee is essential to ensure that the committee is kept informed of matters considered by the internal audit function and any emerging issues that may require reporting to the governing body or general manager.

### Quarterly updates

The head of the internal audit function is to ensure that the audit, risk and improvement committee is advised at each of the committee's quarterly meetings of

- the internal audits completed during that quarter
- progress in implementing the annual work plan, and
- progress made implementing corrective actions arising from any past internal audits.

The way this information is communicated is to be decided by the audit, risk and improvement committee in consultation with the head of the internal audit function.

### Ongoing advice

The head of the internal audit function can meet with the chair of the audit, risk and improvement committee at any time, as necessary, between committee meetings.

This is particularly important to ensure that any urgent or emerging issues identified by the internal audit function can be quickly reported to the audit, risk and improvement committee

## Internal audit documents

Internal audit documentation includes any information or documents produced or obtained by a council's internal audit function that relates to the internal audit activities of the council.

All internal audit documents:

- are for internal use only, subject to the requirements of the *Government Information (Public Access) Act 2009* (GIPA Act)
- are to remain the property of the audited council, including where internal audit services are performed by an external provider – all rights reside with the audited council
- must be documented, retained and controlled in accordance with the International Professional Practices Framework and council policies
- can be accessed by the audit, risk and improvement committee and external auditor without restriction
- can be accessed by the governing body via resolution, subject to the approval of the chair of the committee (any disputes can be referred to the Office of Local Government for resolution)
- subject to the GIPA Act, can only be released to an external party with the approval of the general manager and the chair of the committee, except where the information is being provided to an external oversight or investigative body for the purposes of informing that agency of a matter that may warrant its attention.

Any internal audit documentation provided to any individual, including members of the governing body, should be treated as strictly confidential.

The chair of the audit, risk and improvement committee may refuse to provide access to

internal audit documents or information to anyone who has previously released such information without authorisation.

## Review of internal audit function performance

It is important that the work of each council's internal audit function is regularly assessed, and internal auditors held accountable for their performance.

This will ensure that the internal audit function is making a valuable contribution to the council and allows the audit, risk and improvement committee and the council to understand how the council is performing in relation to the matters listed in section 428A of the Local Government Act.

It will also ensure that the audit, risk and improvement committee and council can determine whether any changes to the internal audit function are required.

### Annual assessment

The audit, risk and improvement committee must review the performance of the internal audit function each year and report its findings to the governing body as part of the committee's annual assessment.

The annual assessment is to ensure that any concerns regarding the operation of the internal audit function and compliance with the International Professional Practices Framework can be dealt with before they are identified in the four-yearly strategic review, by which time their consequences may have escalated.

An annual assessment will also encourage continuous improvement of the council's internal audit activity.

The audit, risk and improvement committee is to determine the nature of this assessment. It could be conducted, for example, via a self-

assessment performed by the head of the internal audit function.

More information about the audit, risk and improvement committee's annual assessments is provided under core requirement 1.

### Four-yearly strategic assessment

**A council's audit, risk and improvement committee is to provide an assessment of the effectiveness of the council's internal audit function to the general manager and governing body in each term of the council, as part of the committee's four-yearly strategic assessment.**



This assessment is to occur regardless of whether the council has established an in-house or outsourced internal audit function, as the assessment focuses on how the council has implemented its internal audit function.

As part of the audit, risk and improvement committee's assessment of the council's internal audit function, it should consider:

- the views of an independent external party with strong knowledge of internal audit operation
- the independence of the internal audit function
- whether resourcing is sufficient
- whether the internal audit function complies with statutory requirements and the International Professional Practices Framework
- the appropriateness of annual work plans and strategic plans based on the risks facing the council
- progress against key performance indicators
- whether the internal audit function adds value and delivers outcomes for the council, and
- the appropriateness of the internal audit charter.

To ensure the views of the external party consulted are robust, the external party should have:

- strong skills, knowledge and expertise in internal audit

- a working knowledge of the International Professional Practices Framework, and
- no conflicts of interest that may result in bias or a lack of objectivity.

The audit, risk and improvement committee, in consultation with the general manager, is to develop an action plan for the governing body to address any internal audit issues identified by the committee.

The audit, risk and improvement committee's strategic assessment and action plan is to be discussed with the governing body and general manager at the strategic assurance meeting held each council term.

More information about the audit, risk and improvement committee's strategic assessment is provided under core requirement 1.

## Reporting concerns about councillors or council staff

Given the nature of internal audit, there may times where the internal audit function identifies concerns about the conduct of council staff.

Where the head of the internal audit function has concerns regarding a staff member, they can:

- 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 Mayor, as required by the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*
- 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)
- 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).

## Annual attestation

The Local Government Regulation (clause #tbc) requires the general manager to attest each year in the council's annual report whether the council has complied with the following requirements:

- council has an internal audit function that provides an independent unbiased assessment of the council's operations and risk and control activities
- council's internal audit function reports to the audit, risk and improvement committee on internal audit matters
- the internal audit function operates independently of the council
- council's internal audit function operates according to an internal audit charter, which is consistent with the approved Model Internal Audit Charter contained in these guidelines
- council has appointed an appropriately skilled and eligible staff member to direct the council's internal audit activities or is part of a shared arrangement where a participating council has appointed a staff member to lead internal audit
- internal audit activities are conducted in accordance with the International Professional Practices Framework

- council's internal audit function operates according to annual and four-yearly strategic plans adopted by the governing body of the council
- council provides the internal audit function with direct and unrestricted access to the general manager and other staff, council information and resources so it can fulfil its responsibilities, and
- at least once each council term (i.e. four years) the audit, risk and improvement committee conducts a review of the effectiveness of the council's internal audit function.

Further information on annual attestation requirements are detailed in the statutory framework section of these Guidelines.

## Further resources

The following resources may be useful to councils seeking more information about the establishment and operation of their internal audit function.

This is not an exhaustive list but provides a useful starting point for councils that seek to better understand internal audit, how it can be used by councils to improve performance, and practical tools, examples and templates to adapt for their own use.

### **International Professional Practices Framework (mandatory guidance) – Institute of Internal Auditors (2017)**

Outlines the mandatory requirements for undertaking internal auditing under the International Professional Practices Framework.

Consists of four parts:

- Core Principles for the Professional Practice of Internal Auditing
- Definition of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing

### **International Professional Practices Framework (recommended guidance) – Institute of Internal Auditors (2017)**

Provides detailed guidance on how to implement the International Professional Practice Framework.

Consists of two parts:

- Implementation Guide – assists an internal audit function to apply the standards and understand how compliance will be measured by the audit, risk and improvement committee, and
- Supplemental Guide (Practice Guides) – provides detailed processes and procedures for the internal audit function.

### **How can audit committee members add value? – PriceWaterhouseCoopers (2011)**

Provides a checklist for measuring the performance of an internal audit function.

### **Internal Audit in Australia – Institute of Internal Auditors Australia (2016)**

Provides an overview of the role of internal audit and the internal audit function, including:

- the different types of work plans that can be used to guide internal audit activity
- the skills, knowledge, experience and qualifications/certifications required of internal auditors
- performing, reporting and monitoring internal audits, and
- how to review the performance of an internal audit function, including performance measures that could be used

### **Practice Guide – Talent Management: Recruiting, Developing, Motivating and Retaining Great Team Members – Institute of Internal Auditors (2015)**

Provides guidance on how to establish an effective internal audit team (for purchase from the Institute of Internal Auditors).

### **Quality Assessment Manual for the Internal Audit Activity – Institute of Internal Auditors (2017)**

Outlines how the performance of council's internal audit function can be assessed both internally and externally against the International Professional Practices Framework.

# Implementation



Under the Local Government Act, all councils and joint organisations are required to appoint an audit, risk and improvement committee by June 2022.

Following June 2022, councils will have two years, until 30 June 2024, to comply with the risk management and internal audit requirements under these Guidelines and five years to comply with the audit, risk and improvement committee requirements.

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## Audit, risk and improvement committees

### New Committees

Councils that currently do not have an audit, risk and improvement committee must appoint a Committee by June 2022 that complies with the requirements of these Guidelines.

### Existing Committees

Councils that already have an audit, risk and improvement committee will already comply with the requirement under the Local Government Act to appoint a committee.

These councils will have until June 2027 (five years) to ensure the membership of their committees comply with these guidelines.

Additional transition time is provided to allow the terms of existing audit, risk and improvement committee members that may not otherwise be eligible for membership of the committee under the new requirements, to naturally expire.

Staged compliance will provide greater stability in the membership of existing committees, ensure the retention of corporate knowledge on the committee, and reduce demand on the prequalification scheme.

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## Risk management framework

Councils have until 30 June 2024 to ensure their risk management framework complies with these guidelines.

However, councils that already have a mature risk management framework are encouraged, for their own benefit, to comply sooner.

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## Internal audit function

As a transitional measure, councils will have until 30 June 2024 to ensure their internal audit function complies with these guidelines.

However, councils that already have an internal audit function are encouraged, for their own benefit, to comply sooner.

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## Attestation

Attestation requirements will commence in 2024 for risk management and internal audit, and 2027 for audit, risk and improvement committees.

All councils will be required to publish their attestation certificates commencing with their 2024-2025 annual report.

However, councils with more mature audit, risk and improvement committees, internal audit function and/or risk management frameworks are encouraged to consider publishing attestation certificates in their annual reports sooner.

# Appendix 1:

## Attestation template and Determination template

## Internal Audit and Risk Management Attestation Statement for the [years] Financial Year for [council/joint organisation]

I am of the opinion that [council/joint organisation] has an audit, risk and improvement committee and risk management and internal audit processes that, excluding the exceptions outlined below, operate in compliance with the requirements set out in the *Local Government Act 1993* and *Local Government (General) Regulation 2005*.

Specifically:

### Audit, risk and improvement committee

Requirement	Compliance
[Council's/joint organisation's] audit, risk and improvement committee is independent of the [council/joint organisation] and has three or more members that comply with or exceed the minimum requirements for the [council's/joint organisation's] prescribed category as a [tier #] council	[compliant or non/compliant]
The chair and all members of [council's/joint organisation's] audit, risk and improvement committee meet the eligibility and independence criteria required of their position, and have been appointed in accordance with prescribed membership term limits	[compliant or non/compliant]
[Council's/joint organisation's] audit, risk and improvement committee operates according to terms of reference approved by the [governing body of the council/board of the joint organisation] that are consistent with the approved Model Terms of Reference	[compliant or non/compliant]
[Council's/joint organisation's] audit, risk and improvement committee operates according to annual and four-yearly strategic plans endorsed by the [governing body of the council/board of the joint organisation]	[compliant or non/compliant]
[Council's/joint organisation's] audit, risk and improvement committee provides an annual assessment to the [governing body/board of the joint organisation] each year, and a strategic assessment of all the matters listed in section 428A of the Local Government Act to the [governing body/board] each council term	[compliant or non/compliant, include date of last strategic assessment provided]
The [council/joint organisation] provides the audit, risk and improvement committee with direct and unrestricted access to the [general manager/executive officer], senior management, [council/joint organisation] information and [council/joint organisation] resources so it can fulfil its responsibilities	[compliant or non/compliant]
At least once each council term the [governing body of the council/board of the joint organisation] reviews the effectiveness of the audit, risk and improvement committee.	[compliant or non/compliant, include date of last review]

*Membership*

The chair and membership of the audit, risk and improvement committee are:

Independent chair	[name]	[start term date]	[finish term date]
Independent member	[name]	[start term date]	[finish term date]
Independent member	[name]	[start term date]	[finish term date]
Independent member <sup>1</sup>	[name]	[start term date]	[finish term date]
Independent member <sup>1</sup>	[name]	[start term date]	[finish term date]
[Councillor/board] member <sup>1</sup>	[name]	[start term date]	[finish term date]

**Risk Management**

Requirement	Compliance
[Council/joint organisation] has adopted a risk management framework that is consistent with current Australian risk management standards and appropriate for the [council's/joint organisation's] risks	[compliant or non/compliant]
[Council's/joint organisation's] audit, risk and improvement committee is responsible for reviewing the implementation of [council's/joint organisation's] risk management framework and issues a strategic assessment of the effectiveness of the [council's/joint organisation] risk management framework to the [governing body/board] each council term.	[compliant or non/compliant, include date of last strategic assessment provided]

**Internal Audit**

Requirement	Compliance
[Council/joint organisation] has an internal audit function that provides an independent unbiased assessment of the [council's/joint organisation's] operations and risk and control activities	[compliant or non/compliant]
[Council's/joint organisation's] internal audit function reports to the audit, risk and improvement committee on internal audit matters	[compliant or non/compliant]
[Council's/joint organisation's] internal audit function operates independently of the [council/joint organisation] and internal audit activities are not subject to direction by the [council/joint organisation]	[compliant or non/compliant]
[Council's/joint organisation's] internal audit function operates according to an internal audit charter, which is consistent with the approved Model Internal Audit Charter	[compliant or non/compliant]
[Council/joint organisation] has appointed an appropriately skilled and eligible staff member to direct the [council's/joint organisation's] internal audit activities or is part of a shared	[compliant or non/compliant]

<sup>1</sup> Delete row if optional member not appointed

Requirement	Compliance
arrangement where a participating [council/joint organisation] has appointed a staff member to direct shared internal audit activities	
Internal audit activities are conducted in accordance with the International Professional Practices Framework	[compliant or non/compliant]
[Council's/joint organisation's] internal audit function operates according to annual and four-yearly strategic plans developed by the [council's/joint organisation's] audit, risk and improvement committee and endorsed by the [governing body of the council/board of the joint organisation]	[compliant or non/compliant]
[Council/joint organisation] provides the internal audit function with direct and unrestricted access to the [council/joint organisation] staff, [council's/joint organisation's] audit, risk and improvement committee, [council/joint organisation] information and resources so it can fulfil its responsibilities	[compliant or non/compliant]
At least once each council term [council's/joint organisation's] audit, risk and improvement committee reviews the effectiveness of the [council's/joint organisation's] internal audit function and reports this to the [governing body of the council/board of the joint organisation].	[compliant or non/compliant]

### Departures from regulatory requirements

I advise that the audit, risk and improvement committee, risk management and internal audit activities for [council/joint organisation] depart from the requirements set out in the *Local Government Act 1993* and *Local Government (General) Regulation 2005* in the following ways:

Non-compliance	Reason	Alternative measures being implemented	Exemption granted by the Chief Executive of the Office of Local Government
[regulatory requirement]	[detailed description of reasons giving rise to the non-compliance]	[detailed description of the practicable alternative measures implemented to achieve equivalent level of assurance]	[yes/no]

These processes, including the alternative measures implemented, demonstrate that [council/joint organisation] has established and maintained frameworks, including systems, processes and procedures for appropriately managing audit and risk within [council/joint organisation].

[signed]  
[name and position]  
[date]

## [Council/joint organisation] compliance with mandatory risk management and internal audit requirements

I am advised that [council/joint organisation] has not complied with the following requirements with respect to the operation of its [audit, risk and improvement committee/risk management/internal audit processes] (omit where relevant):

Requirement	Reason for non-compliance
[regulatory requirement]	[detailed description of reasons giving rise to the non-compliance]

I note that the following alternative arrangements have been implemented to achieve outcomes equivalent to the requirement/s:

Summary of alternative arrangements	How they will achieve equivalent outcomes
[summary of alternative arrangement]	[summary of how they will achieve equivalent outcomes]

I am satisfied that these alternative arrangements will achieve outcomes equivalent to the requirement/s.

This exemption from the requirements of the *Local Government (General) Regulation 2005* is valid for the financial year/s of [years].

[signed]  
[name and position]  
[date]

[Office of Local Government contact officer contact details]

# Appendix 2:

## **Audit, risk and improvement committee – role and responsibilities**



Under section 428A of the Local Government Act, each council (including county councils and joint organisations) must have an audit, risk and improvement committee to independently review and provide advice to the council regarding the following aspects of 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 must also provide information to the council for the purpose of improving council's performance of its functions.

The audit, risk and improvement committee and council are to agree on the specific activities the committee is to review based on the council's needs, risks and business functions.

The following is a list of activities audit, risk and improvement committees and councils should consider as part of the committee's 'audit', 'risk' and 'improvement' roles based on the requirements of section 428A of the Local Government Act.

This is not an exhaustive list and audit, risk and improvement committees and councils are encouraged to carefully consider the council's business operations, service delivery, financial management processes, internal audit function, external accountability requirements, risk management framework, governance arrangements and integrated planning and reporting framework to maximise the advice and assistance the committee can provide to the council.

## Audit

### Internal audit

section 428A(2)(i)

#### Principle

Council has an effective internal audit function and receives maximum value from its internal audit activities.

#### Committee's role

- Provide overall strategic oversight of internal audit activities
- Act as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit
- Coordinate as far as is practicable, the work programs of internal audit and other assurance and review functions
- Advise the general manager and governing body of the council:
  - whether the council is providing the resources necessary to successfully deliver the internal audit function
  - if the council is complying with internal audit requirements, including compliance with the International Professional Practices Framework
  - if the council's internal audit charter is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by the council are suitable
  - of the strategic four-year plan and annual work plan of internal audits to be undertaken by the council's internal audit function
  - if council's internal audit activities are effective, including the performance of the head of the internal audit function and internal audit function
  - of the findings and recommendations of internal audits conducted, and corrective actions needed to address issues raised
  - of the implementation by council of these corrective actions

- on the appointment of the head of the internal audit function and external providers, and
- if the internal audit function is structured appropriately and has sufficient skills and expertise to meet its responsibilities

## External audit

### Principle

Council receives maximum value from its external audit activities.

### Committee's role

- Act as a forum for communication between the governing body, general manager, senior management, the internal audit function and external audit
- Coordinate as far as is practicable, the work programs of internal audit and external audit
- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided
- Review all external plans and reports in respect of planned or completed audits and monitor council's implementation of audit recommendations
- Provide advice to the governing body and/or general manager on action taken on significant issues raised in relevant external audit reports and better practice guides

## Risk

### Compliance framework

section 428A(2)(a)

### Principle

Council has an effective compliance framework that ensures it is complying with its legal obligations and other governance and

contractual requirements when undertaking its functions.

### Committee's role

Advise the general manager and governing body of the council of the adequacy and effectiveness of the council's compliance framework, including:

- if the council has appropriately considered legal and compliance risks as part of the council's risk management framework
- how the council manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- whether appropriate processes are in place to assess compliance.

## Risk management

section 428A(2)(b)

### Principle

Council has an effective risk management framework and internal controls that successfully identify and manage the risks it faces.

### Committee's role

Advise the general manager and governing body of the council:

#### Risk management framework

- whether the council is providing the resources necessary to successfully implement its risk management framework
- if the council has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the council's risk management framework is adequate and effective for identifying and managing the risks the council faces, including those associated individual projects, programs and other activities
- if risk management is integrated across all levels of the council and across all processes, operations, services, decision-making, functions and reporting

- of the adequacy of risk reports and documentation, for example, the council's risk register and risk profile
- whether a sound approach has been followed in developing risk management plans
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if council has taken steps to embed a culture that is committed to ethical and lawful behaviour
- if there is a positive risk culture within the council and strong leadership that supports effective risk management
- of the adequacy of staff training and induction in risk management
- how the council's risk management approach impacts on the council's insurance arrangements
- of the effectiveness of council's management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

#### Internal control framework

- if the internal controls in place are appropriate for the risk council faces
- whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
- if the council's monitoring and review of controls, including policies and procedures, is sufficient, and
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately

### **Fraud and corruption control framework**

section 428A(2)(c)

#### **Principle**

Council has an effective fraud and corruption control framework in place that minimises the incidence of fraud and corruption.

#### **Committee's role**

Advise the general manager and governing body of the council of the adequacy and effectiveness of the council's fraud and corruption prevention framework and activities, including whether the council has:

- a fraud and corruption policy
- clearly defined responsibilities for managing fraud and corruption
- risk-based preventative and detective controls
- policies, systems and processes to respond to, investigate and report suspected fraud and corruption
- employee awareness/education measures
- robust third-party management systems
- appropriate processes and systems in place to capture and effectively investigate fraud-related information
- regular review of the fraud and corruption control framework and reporting,
- implemented applicable guidance and other better practice measures by the Independent Commission Against Corruption.

### **Financial management framework**

section 428A(2)(d)

#### **Principle**

Council has an effective financial management framework, sustainable financial position and positive financial performance.

#### **Committee's role**

Advise the general manager and governing body of the council:

#### External accountability and financial reporting framework

- if council is complying with accounting standards and external accountability requirements
- of the appropriateness of councils accounting policies and disclosures
- of the implications for council of the findings of external audits and performance audits and council's

responses and implementation of recommendations

- whether the council's financial statement preparation procedures and timelines are sound
- the accuracy of the council's annual financial statements prior to external audit, including:
  - management compliance/representations
  - significant accounting and reporting issues
  - the methods used by the council to account for significant or unusual transactions and areas of significant estimates or judgements
  - appropriate management signoff on the statements
- if effective processes are in place to ensure financial information included in the council's report is consistent with signed financial statements

#### Financial management framework

- if the council's financial management processes are adequate
- the adequacy of cash management and credit card use policies and procedures
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
  - timely reconciliation of accounts and balances
  - review of unusual and high value purchases

#### Financial position and performance

- if policies and procedures for management review and consideration of the financial position and performance of the council are adequate

#### Grants and tied funding policies and procedures

- if council's grants and tied funding policies and procedures are sound.

## Governance framework

section 428A(2)(e)

### Principle

Council has an effective governance framework to ensure it is appropriately directing and controlling the management of the council.

### Committee's role

Advise the governing body and general manager if the council's governance framework is sound, including the council's:

- decision-making processes
- implementation of governance policies and procedures
- reporting lines and accountability
- assignment of key role and responsibilities
- committee structure
- management oversight responsibilities
- human resources and performance management activities
- reporting and communication activities
- information and communications technology (ICT) governance, and
- management and governance of the use of data, information and knowledge.

## Improvement

## Strategic planning

section 428A(2)(f)

### Principle

Council has an effective framework that ensures it achieves its strategic plans and objectives under the integrated planning and reporting (IP&R) framework.

### Committee's role

Advise the general manager and governing body of the council:

- of the adequacy and effectiveness of the council's IP&R processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and

- whether the council is successfully implementing and achieving its IP&R objectives and strategies.

## Service reviews and business improvement

section 428A(2)(g) and s428A(3)

### Principle

Council has an effective framework to ensure it is delivering services and conducting its business and functions to an expected standard.

### Committee's role

- Act as a forum for communication and monitoring of any audits conducted by external bodies and the implementation of corrective actions (for example, NSW government agencies, Commonwealth government agencies, insurance bodies)
- Advise the general manager and governing body of the council:
  - if council has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
  - if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
  - how the council can improve its service delivery and the council's performance of its business and functions generally

### Committee's role

Advise the general manager and governing body of the council:

- if council has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
- the performance indicators council uses are effective, and
- of the adequacy of performance data collection and reporting.

## Performance data and measurement

section 428A(2)(h)

### Principle

Council's performance management framework ensures council can measure its performance and if it is achieving its strategic goals.

# Appendix 3:

## **Model Terms of Reference for audit, risk and improvement committees**



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## Model Terms of Reference for local government audit, risk and improvement committees

[Council/joint organisation] has established an audit, risk and improvement committee in compliance with section 428A of the *Local Government Act 1993* and clauses (#tbc) of the *Local Government (General) Regulation 2005*. These terms of reference set out the Committee's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements.

### Objective

The objective of [council's/joint organisation's] audit, risk and improvement committee is to provide independent assurance to [council/joint organisation] by monitoring, reviewing and providing advice about the [council's/joint organisation's] governance processes, compliance, risk management and control frameworks, external accountability obligations and overall performance.

### Independence

The Committee is to be independent to ensure it has no real or perceived bias or conflicts of interest that may interfere with its ability to act independently and provide [council/joint organisation] with robust, objective and unbiased advice and assurance.

The Committee is to provide an advisory and assurance role only and is to have no administrative function, delegated financial responsibility or any management functions of the [council/joint organisation]. The Committee will provide independent advice to the [council/joint organisation] that is informed by the [council's/joint organisation's] internal audit and risk management activities and information and advice provided by [council staff/joint organisation], relevant external bodies and subject matter experts.

The Committee must at all times ensure it maintains a direct reporting line to and from the [council's/joint organisation's] internal audit function and act as a mechanism for internal audit to report to the [governing body/board] and [general manager/executive officer] on matters affecting the performance of the internal audit function.

### Authority

[Council/joint organisation] authorises the Committee, for the purposes of exercising its role and responsibilities, to:

- access any information it needs from the [council/joint organisation]
- use any [council/joint organisation] resources it needs
- have direct and unrestricted access to the [general manager/executive officer] and senior management of the [council/joint organisation]
- seek the [general manager's/executive officer's] permission to meet with any other [council/joint organisation] staff member or contractor
- discuss any matters with the external auditor or other external parties
- request the attendance of any employee at committee meetings, and
- obtain external legal or other professional advice. [Detail any prior approval needed or pre-determined budget for costs].

Information and documents pertaining to the Committee are confidential and are not to be made publicly available. The Committee may only release [council/joint organisation] information to external parties that are assisting the Committee to fulfil its responsibilities with the approval of the [general manager/executive officer], except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention. [change if documentation is to be made available to the public]

## Composition and tenure

The Committee consists of [tier 1 – one independent prequalified voting Chair, two independent voting members and one non-voting councillor/board member] [tier 2 – one independent prequalified voting Chair, one independent prequalified voting member, one independent voting member and one non-voting councillor/board member] [tier 3 – one independent prequalified voting Chair, two independent prequalified voting members and one non-voting councillor member/board member], in accordance with the *Guidelines for risk management and internal audit in local councils in NSW*.

[If applicable - council/joint organisation has been granted an exemption by the Secretary of the Department of Planning, Industry and Environment from the requirement that the Chair of the Committee be prequalified under the NSW Government's *Audit and Risk Committee Independent Chairs and Members Prequalification Scheme*.]

The [governing body/board] is to appoint the Chair and members of the Committee. The Chair is counted as one member of the Committee. Current committee members are:

[name]	Independent chair (voting)
[name]	Independent member (voting)
[name]	Independent member (voting)
[name]	[Councillor/board] member (non-voting) (if applicable) [cannot be the mayor]

All committee members are to meet the independence and eligibility criteria prescribed in the *Guidelines for risk management and internal audit in local councils in NSW*.

Members will be appointed for a four-year period. Members can be reappointed for a further term, but the total period of continuous membership cannot exceed eight years. This includes any term as Chair of the Committee. Members who have served an eight-year term (either as member or Chair) must have a two-year break from serving on the Committee before being appointed again. To preserve the Committee's knowledge of [council/joint organisation], ideally, no more than one member should leave the Committee because of rotation on any one year.

Specific member terms and conditions are to be disclosed in a letter of appointment. New members will be thoroughly inducted to their role and receive relevant information and briefings on their appointment to assist them to meet their committee responsibilities.

Prior to approving the reappointment or extension of the Chair's or an independent member's term, the [governing body/board] is to undertake an assessment of the Chair's or committee member's performance. Reappointment of the Chair and members is also to be subject to the individual still meeting independence and eligibility requirements.

Members of the Committee are to possess and maintain a broad range of skills, knowledge and experience relevant to the operations, governance and financial management of [council/joint organisation], the environment in which [council/joint organisation] operates, and the contribution that the Committee makes to the [council/joint organisation]. At least one member of the Committee must have accounting or related financial management experience with an understanding of accounting and auditing standards in a local government environment. All members should have sufficient understanding of the [council's/joint organisation's] financial reporting responsibilities to be able to contribute to the Committee's consideration of the [council's/joint organisation's] annual financial statements.

[Add any relevant details about shared arrangements, if applicable].

## Role

In accordance with section 428A of the *Local Government Act 1993*, the role of the Committee is to review and provide independent advice to the [council/joint organisation] regarding the following aspects of the [council's/joint organisation's] operations:

- 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/joint organisation], and
- internal audit.

The Committee must also provide information to the [council/joint organisation] for the purpose of improving [council's/joint organisation's] performance of its functions.

The Committee's specific audit, risk and improvement responsibilities under section 428A are outlined in Schedule 1 to this charter.

The Committee will act as a forum for the [council's/joint organisation's] internal audit function and oversee its planning, monitoring and reporting to ensure it operates effectively.

The Committee will have no power of direction over external audit or the manner in which the external audit is planned or undertaken but will act as a forum for the consideration of external audit findings.

The Committee is directly responsible and accountable to the [governing body of the council/board of the joint organisation] for the exercise of its responsibilities. In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of the [council/joint organisation] rests with the [governing body/board] and [general manager/executive officer].

The responsibilities of the Committee may be revised or expanded in consultation with, or as requested by, the [governing body of the council/board of the joint organisation] from time to time.

## Responsibilities of members

### Independent members

The Chair and members of the Committee are expected to understand and observe the requirements of the *Guidelines for risk management and internal audit for local government in NSW*. Members are also expected to:

- make themselves available as required to attend and participate in meetings
- contribute the time needed to review and understand information provided to it
- apply good analytical skills, objectivity and judgement
- act in the best interests of the [council/joint organisation]
- have the personal courage to raise and deal with tough issues, express opinions frankly, ask questions that go to the fundamental core of the issue and pursue independent lines of inquiry
- maintain effective working relationships with the [council/joint organisation]
- have strong leadership qualities (Chair)
- lead effective committee meetings (Chair), and
- oversee the [council's/joint organisation's] internal audit function (Chair).

### [Councillor/board] members (if applicable)

To preserve the independence of the Committee, the [councillor/board] member of the Committee is a non-voting member. Their role is to:

- relay to the Committee any concerns the [governing body/board] may have regarding the [council/joint organisation] and issues being considered by the Committee
- provide insights into local issues and the strategic priorities of the [council/joint organisation] that would add value to the Committee's consideration of agenda items
- advise the [governing body/board] (as necessary) of the work of the Committee and any issues arising from it, and
- assist the [governing body/board] to review the performance of the Committee.

Issues or information the councillor member raises with or provides to the Committee must relate to the matters listed in Schedule 1 and issues being considered by the Committee.

The [councillor/board] member of the Committee must conduct themselves in a non-partisan and professional manner. The [councillor/board] member of the Committee must not engage in any conduct that seeks to politicise the activities of the Committee or the internal audit function or that could be seen to do so.

If the [councillor/board] member of the Committee engages in such conduct or in any other conduct that may bring the Committee and its work into disrepute, the Chair of the Committee may recommend to the [council/joint organisation], that the [councillor/board] member be removed from membership of the Committee. Where the [council/joint organisation] does not agree to the Committee Chair's recommendation, the [council/joint organisation] must give reasons for its decision in writing to the Chair.

### Conduct

Independent committee members are required to comply with the [council's/joint organisation's] code of conduct and be held to the same ethical, behavioural and conduct standards as officials of the council.

Complaints or breaches of [council's/joint organisation's] code of conduct by an independent committee member are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The [general manager/executive officer] must consult with the [governing body/board] before taking any disciplinary action against an independent committee member in response to a breach of the [council's/joint organisation's] Code of Conduct.

Prequalified Committee members are also required to comply with the code of conduct governing the NSW Government's *Audit and Risk Committee Independent Chairs and Members Prequalification Scheme*.

### Conflicts of interest

Once a year, Committee members will provide written declarations to the [council/joint organisation] stating that they do not have any conflicts of interest that would preclude them from being members of the Committee. Independent committee members are 'designated persons' and must also complete and submit returns of interest.

Committee members and observers must declare any pecuniary or non-pecuniary conflicts of interest that may have at the start of each meeting, before discussion of the relevant agenda item or issue, and when the issue arises. Where committee members and observers are deemed to have a pecuniary or a significant non-pecuniary conflict of interest, they are to remove themselves from Committee deliberations on the issue. Details of any conflicts of interest should also be appropriately minuted.

### Standards

Committee members are to conduct their work in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and [current Australian risk management standard], where applicable.

## Workplans

The work of the Committee is to be thoroughly planned and executed to ensure that all [council/joint organisation] activities and functions are reviewed. The Committee must develop a strategic plan every four years to ensure that all matters listed in Schedule 1 are reviewed by the Committee and the internal audit function over each [council/joint organisation] term. The strategic plan must be reviewed at least annually to ensure it remains appropriate.

The Committee may, in consultation with the [council's/joint organisation's] [governing body/board], vary the strategic work plan at any time to address new or emerging risks. The [governing body/board] of the [council/joint organisation] may also, by resolution, request the Committee to approve a variation to the strategic work plan. However, any decision to vary the strategic work plan must be made by the Committee.

The Committee must also develop an annual workplan to guide its work, and the work of the [name of internal audit function], over the forward year.

The Committee may, in consultation with the [council's/joint organisation's] governing body, vary the annual work plan to address new or emerging risks. The [governing body/board] of the [council/joint organisation] may also, by resolution, request the Committee to approve a variation to the annual work plan. However, any decision to vary the annual work plan must be made by the Committee.

When considering whether to vary the strategic or annual work plans, the Committee must consider the impact of the variation on the internal audit function's existing workload and the completion of pre-existing priorities and activities identified under the workplan.

## Assurance reporting

The Committee must regularly report to the [council/joint organisation] to ensure that the [council/joint organisation] is kept informed of matters considered by the Committee and any emerging issues that may influence the strategic direction of the [council/joint organisation] or the achievement of the [council's/joint organisation's] goals and objectives.

The Committee will provide an update to the [governing body/board] and [general manager/executive officer] of its activities and opinions after every Committee meeting.

The Committee will provide an annual assessment to the [governing body/board] and [general manager/executive officer] each year on the Committee's work and its opinion on how [council/joint organisation] is performing.

The Committee will provide a comprehensive assessment every council term of all the matters listed in Schedule 1 to the [governing body/board] and [general manager/executive officer].

The Committee may at any time report to the [governing body/board] or [general manager/executive officer] on any other matter it deems of sufficient importance to warrant their attention. The Mayor and Chair of the Committee may also meet at any time to discuss issues relating to the work of the Committee.

Should the [governing body/board] require additional information, a request for the information may be made to the Chair by resolution. The Chair may only provide the information requested by the [governing body/board] where the Chair is satisfied that it is reasonably necessary for the [governing body/board] to receive the information for the purposes of performing its functions under the Local Government Act. Individual [councillors/board members] are not entitled to request or receive information from the Committee.

## Administrative arrangements

### Meetings

The Committee will meet at least [number] times per year, [including a special meeting to review the [council's/joint organisation's] financial statements].

The Committee can hold additional meetings when significant unexpected issues arise, or if the Chair is asked to hold an additional meeting by a committee member, the [general manager/executive officer] or the [governing body/board].

Committee meetings can be held in person, by telephone or videoconference. Proxies are not permitted if a member is unable to attend a meeting.

A quorum will consist of a majority of independent voting members. Where the vote is tied, the Chair has the casting vote.

The Chair of the Committee will decide the agenda for each committee meeting. Each committee meeting is to be minuted to preserve a record of the issues considered and the actions and decisions taken by the Committee.

The [general manager/executive officer] and [head of the internal audit function] are to attend committee meetings as non-voting observers. The external auditor (or their representative) is to be invited to each committee meeting as an independent observer. The Chair can request the

[council's/joint organisation's] [Chief Finance Officer or equivalent], [head of risk management function or equivalent], [senior managers or equivalent], any [councillors/board members], any employee/contractor of the council and any subject matter expert to attend committee meetings. These individuals must attend and provide any information requested, where possible. Observers have no voting rights and can be excluded from a meeting by the Chair at any time.

The Committee can hold closed meetings whenever it needs to discuss confidential or sensitive issues with only voting members of the committee present.

The Committee must meet separately with both the [name of internal audit function] and the [council's/joint organisation's] external auditor at least once per year.

### Dispute resolution

Members of the Committee and the [council's/joint organisation's] management should maintain an effective working relationship and seek to resolve any differences they may have in an amicable and professional way via discussion and negotiation.

In the event of a disagreement between the Committee and the [general manager/executive officer] or other senior managers, the dispute is to be resolved by the [governing body of the council/board of the joint organisation].

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Secretary of the Department of Planning, Industry and Environment in writing.

### Secretariat

The [general manager/executive officer] will appoint a [council/joint organisation] employee/s to provide secretariat support to the Committee. The secretariat will ensure the agenda for each meeting and supporting papers are circulated after approval from the Chair at least [number] weeks before the meeting and ensure that minutes of meetings are prepared and maintained. Minutes must be approved by the Chair and circulated within [agreed timeframe] of the meeting to each member.

### Resignation and dismissal of members

Where the Chair or a Committee member is unable to complete their term, or does not intend to seek reappointment after the expiry of their term, they should give [agreed timeframe] notice to the Chair and [governing body/board] prior to their resignation to enable the [council/joint organisation] to ensure a smooth transition to a new committee member.

The [governing body/board] can terminate via resolution the engagement of any Chair or independent committee member before the expiry of their term where the individual has:

- breached the conditions of, or become ineligible under the NSW Government's *Audit and Risk Committee Independent Chairs and Members Prequalification Scheme*
- breached the council's Code of Conduct
- performed unsatisfactorily or not to expectations
- been declared bankrupt or found to be insolvent
- experienced an adverse change in business status
- been proven to be in a serious breach of their obligations under any legislation, or
- declared, or is found to be in, a position of a conflict of interest which is unresolvable.

The position of a [councillor/board] member on the Committee can be terminated at any time by the [governing body/board] via resolution.

**Review arrangements**

At least once every council term the [governing body/board] must conduct an external review of the effectiveness of the Committee.

These terms of reference are to be reviewed annually by the Committee and once each council term by the [governing body/board]. Any substantive changes are to be approved by the [governing body/board].

**Further information**

For further information on [council's/joint organisation's] audit, risk and improvement committee contact [name] on [email address] or by phone [phone number].

Reviewed by Chair of the audit, risk and improvement committee

[signed]

[date]

Reviewed by [council/joint organisation] or in accordance with a resolution of the governing body

[signed]

[date]

[resolution reference]

Next review date: [date]

## Schedule 1 – Audit, risk and improvement committee responsibilities

*[Note: each council/joint organisation is to determine the responsibilities of its Committee related to each matter listed in section 428A of the Local Government Act 1993 and list them in Schedule 1 to the Committee's terms of reference. Suggested responsibilities are provided below and further detailed in core requirement 1 and Appendix 2 of these Guidelines.]*

### Audit

#### Internal audit

- Provide overall strategic oversight of internal audit activities
- Act as a forum for communication between the [governing body/board], [general manager/executive officer], senior management, the internal audit function and external audit
- Coordinate, as far as is practicable, the work programs of internal audit and other assurance and review functions
- Review and advise the [council/joint organisation]:
  - on whether the [council/joint organisation] is providing the resources necessary to successfully deliver the internal audit function
  - if the [council/joint organisation] is complying with internal audit requirements, including conformance with the International Professional Practices Framework
  - if the [council's/joint organisation's] Internal Audit Charter is appropriate and whether the internal audit policies and procedures and audit/risk methodologies used by the [council/joint organisation] are suitable
  - of the strategic four-year plan and annual work plan of internal audits to be undertaken by the [council's/joint organisation's] internal audit function
  - if [council's/joint organisation's] internal audit activities are effective, including the performance of the head of the internal audit function and internal audit function
  - of the findings and recommendations of internal audits conducted, and corrective actions needed to address issues raised
  - of the implementation by [council/joint organisation] of these corrective actions
  - on the appointment of the head of the internal audit function and external providers, and
  - if the internal audit function is structured appropriately and has sufficient skills and expertise to meet its responsibilities

#### External audit

- Act as a forum for communication between the [governing body/board], [general manager/executive officer], senior management, the internal audit function and external audit
- Coordinate as far as is practicable, the work programs of internal audit and external audit
- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided
- Review all external plans and reports in respect of planned or completed audits and monitor council's implementation of audit recommendations
- Provide advice to the [governing body/board] and/or [general manager/executive officer] on action taken on significant issues raised in relevant external audit reports and better practice guides

## Risk

### Risk management

Review and advise the [council/joint organisation]:

- if the [council's/joint organisation's] has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the [council/joint organisation] is providing the resources necessary to successfully implement its risk management framework
- whether the [council's/joint organisation's] risk management framework is adequate and effective for identifying and managing the risks the [council/joint organisation] faces, including those associated individual projects, programs and other activities
- if risk management is integrated across all levels of the [council/joint organisation] and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, the [council's/joint organisation's] risk register and risk profile
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if [council/joint organisation] has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within the [council/joint organisation] and strong leadership that supports effective risk management
- of the adequacy of staff training and induction in risk management
- how the [council's/joint organisation's] risk management approach impacts on the [council's/joint organisation's] insurance arrangements
- of the effectiveness of [council's/joint organisation's] management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

### Internal controls

Review and advise the [council/joint organisation]:

- whether [council's/joint organisation's] approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective
- whether [council/joint organisation] has in place relevant policies and procedures and that these are periodically reviewed and updated
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
- if the [council's/joint organisation's] monitoring and review of controls is sufficient, and
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately

**Compliance**

Review and advise the [council/joint organisation] of the adequacy and effectiveness of the [council's/joint organisation's] compliance framework, including:

- if the [council/joint organisation] has appropriately considered legal and compliance risks as part of the [council's/joint organisation's] risk management framework
- how the [council/joint organisation] manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- whether appropriate processes are in place to assess compliance.

**Fraud and corruption**

Review and advise the [council/joint organisation] of the adequacy and effectiveness of the [council's/joint organisation's] fraud and corruption prevention framework and activities, including whether the [council/joint organisation] has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

**Financial management**

Review and advise the [council/joint organisation]:

- if [council/joint organisation] is complying with accounting standards and external accountability requirements
- of the appropriateness of [council's/joint organisation's] accounting policies and disclosures
- of the implications for [council/joint organisation] of the findings of external audits and performance audits and [council's/joint organisation's] responses and implementation of recommendations
- whether the [council's/joint organisation's] financial statement preparation procedures and timelines are sound
- the accuracy of the [council's/joint organisation's] annual financial statements prior to external audit, including:
  - management compliance/representations
  - significant accounting and reporting issues
  - the methods used by the [council/joint organisation] to account for significant or unusual transactions and areas of significant estimates or judgements
  - appropriate management signoff on the statements
- if effective processes are in place to ensure financial information included in the [council's/joint organisation's] report is consistent with signed financial statements
- if the [council's/joint organisation's] financial management processes are adequate
- the adequacy of cash management policies and procedures
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
  - timely reconciliation of accounts and balances
  - review of unusual and high value purchases
- if policies and procedures for management review and consideration of the financial position and performance of the [council/joint organisation] are adequate
- if [council's/joint organisation's] grants and tied funding policies and procedures are sound.

**Governance**

Review and advise the [council/joint organisation] regarding its governance framework, including the [council's/joint organisation's]:

- decision-making processes
- implementation of governance policies and procedures
- reporting lines and accountability
- assignment of key role and responsibilities
- committee structure
- management oversight responsibilities
- human resources and performance management activities
- reporting and communication activities
- information and communications technology (ICT) governance, and
- management and governance of the use of data, information and knowledge

**Improvement****Strategic planning**

Review and advise the [council/joint organisation]:

- of the adequacy and effectiveness of the [council's/joint organisation's] IP&R processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- whether the [council/joint organisation] is successfully implementing and achieving its IP&R objectives and strategies.

**Service reviews and business improvement**

- Act as a forum for communication and monitoring of any audits conducted by external bodies and the implementation of corrective actions (for example, NSW government agencies, Commonwealth government agencies, insurance bodies)
- Review and advise the [council/joint organisation]:
  - if [council/joint organisation] has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
  - if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
  - how the [council/joint organisation] can improve its service delivery and the [council's/joint organisation's] performance of its business and functions generally

**Performance data and measurement**

Review and advise the [council/joint organisation]:

- if [council/joint organisation] has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
- if the performance indicators [council/joint organisation] uses are effective, and
- of the adequacy of performance data collection and reporting.

# Appendix 4:

## Council categories



### Tier 1

#### General purpose councils

##### Definition:

- ❖ **Local government area is in a remote location with a population of <20,000 persons**
- ❖ **Local government area is predominantly rural or agricultural in nature with low population growth.**

- Balranald Shire Council
- Bellingen Shire Council
- Berrigan Shire Council
- Bland Shire Council
- Blayney Shire Council
- Bogan Shire Council
- Bourke Shire Council
- Cabonne Council
- Carrathool Shire Council
- Central Darling Shire Council
- Cobar Shire Council
- Coolamon Shire Council
- Coonamble Shire Council
- Cootamundra-Gundagai Regional Council
- Cowra Shire Council
- Dungog Shire Council
- Edward River Council
- Federation Council
- Forbes Shire Council
- Gilgandra Shire Council
- Glen Innes Severn Council
- Greater Hume Shire Council
- Gunnedah Shire Council
- Gwydir Shire Council
- Hay Shire Council
- Hilltops Council
- Inverell Shire Council
- Junee Shire Council
- Kyogle Council
- Lachlan Shire Council
- Leeton Shire Council
- Liverpool Plains Shire Council
- Lockhart Shire Council
- Moree Plains Shire Council
- Murray River Council
- Murrumbidgee Council
- Muswellbrook Shire Council
- Nambucca Valley Council
- Narrabri Shire Council

- Narrandera Shire Council
- Narromine Shire Council
- Oberon Council
- Parkes Shire Council
- Snowy Valleys Council
- Temora Shire Council
- Tenterfield Shire Council
- Upper Hunter Shire Council
- Upper Lachlan Shire Council
- Uralla Shire Council
- Walcha Council
- Walgett Shire Council
- Warren Shire Council
- Warrumbungle Shire Council
- Weddin Shire Council
- Wentworth Shire Council
- Yass Valley Council

#### County councils

##### Definition:

- ❖ **County council is small in size and has lower operating revenue and expenses compared to other county councils**

- Castlereagh-Macquarie County Council
- Central Tablelands Water County Council
- Hawkesbury River County Council
- New England Tablelands (Noxious Plants) County Council
- Upper Hunter Council Council
- Upper Macquarie County Council

#### Joint organisations

##### Definition:

- ❖ **All joint organisations**
- Canberra Region Joint Organisation
- Central NSW Councils Joint Organisation
- Far North Coast Joint Organisation
- Far South West Joint Organisation
- Hunter Joint Organisation of Councils
- Illawarra Shoalhaven Joint Organisation
- Mid North Coast Joint Organisation
- Namoi Joint Organisation
- New England Joint Organisation
- Northern Rivers Joint Organisation
- Riverina and Murray Joint Organisation
- Riverina Joint Organisation

## Tier 2

### General purpose councils

#### Definition:

- ❖ **Local government area is part of a regional urban centre that has a population <1,000,000 persons**
- ❖ **Local government area has a population of <20,000 persons or a population density of >30 persons/km<sup>2</sup> and is predominantly urban in nature**

- Albury City Council
- Armidale Regional Council
- Ballina Shire Council
- Bathurst Regional Council
- Bega Valley Shire Council
- Broken Hill City Council
- Byron Shire Council
- Cessnock City Council
- Clarence Valley Council
- Coffs Harbour City Council
- Dubbo Regional Council
- Eurobodalla Shire Council
- Goulburn Mulwaree Council
- Griffith City Council
- Kempsey Shire Council
- The Council of the Municipality of Kiama
- Lismore City Council
- City of Lithgow Council
- Maitland City Council
- Mid-Coast Council
- Mid-Western Regional Council
- Orange City Council
- Port Macquarie-Hastings Council
- Port Stephens Council
- Queanbeyan-Palerang Regional Council
- Richmond Valley Council
- Shellharbour City Council
- Shoalhaven City Council
- Singleton Council
- Snowy Monaro Regional Council
- Tamworth Regional Council
- Tweed Shire Council
- Wagga Wagga City Council
- Wingecarribee Shire Council

### County councils

#### Definition:

- ❖ **County Council provides essential utility services to the regional area and has higher revenue and operating expenses compared to other county councils**

- Goldenfields Water County Council
- Riverina Water County Council
- Rous County Council

## Tier 3

### General purpose councils

#### Definition:

- ❖ **Local government area is part of, or on the fringe of, an urban centre that has a population >1,000,000 persons and population density of 600 persons/km<sup>2</sup>**
- ❖ **Local government area has a population of > 20,000 persons or population density of >30 persons/km<sup>2</sup> or 90% of LGA population is urban**

- Bayside Council
- Blacktown City Council
- Blue Mountains City Council
- Burwood Council
- City of Canada Bay Council
- Camden Council
- Campbelltown City Council
- Canterbury-Bankstown Council
- Central Coast Council
- Cumberland Council
- Fairfield City Council
- Georges River Council
- Hawkesbury City Council
- The Hills Shire Council
- The Council of the Shire of Hornsby
- The Council of the Municipality of Hunters Hill
- Inner West Council
- Ku-ring-gai Council
- Lake Macquarie City Council
- Lane Cove Municipal Council
- Liverpool City Council
- Mosman Municipal Council
- Newcastle City Council

- Northern Beaches Council
- North Sydney Council
- Council of the City of Parramatta
- Penrith City Council
- Randwick City Council
- Council of the City of Ryde
- Strathfield Municipal Council
- Sutherland Shire Council
- Council of the City of Sydney
- Waverley Council
- Willoughby City Council
- Wollondilly Shire Council
- Wollongong City Council
- Woollahra Municipal Council

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# Appendix 5:

## Example risk management policy



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## Example risk management policy

### Purpose

The purpose of this policy is to express [council's/joint organisation's] commitment to implementing organisation-wide risk management principles, systems and processes that ensure the consistent, efficient and effective assessment of risk in all [council's/joint organisation's] planning, decision-making and operational processes.

### Risk management framework

[Council/joint organisation] provides critical services and infrastructure to the residents, ratepayers and visitors to [area]. [Council/joint organisation] also has service agreements and contractual obligations with government and non-government agencies and organisations and has its own strategic goals and objectives that it seeks to achieve on behalf of the [area] community.

It is therefore incumbent on [council/joint organisation] to understand the internal and external risks that may impact the delivery of these services, contracts and strategic objectives and have processes in place to identify, mitigate, manage and monitor those risks to ensure the best outcome for [council/joint organisation], staff and the community. It is also our responsibility to ensure the efficient, effective and ethical use of resources and services by ratepayers, residents, staff and visitors.

[Council/joint organisation] has developed a risk management framework consistent with [Australian standard] to assist it to identify, treat, monitor and review all risks to its operations and strategic objectives and apply appropriate internal controls.

[Council/joint organisation] is committed to the principles, framework and process of managing risk as outlined in [Australian standard] and commits to fully integrating risk management within the [council/joint organisation] and applying it to all decision-making, functions, services and activities of the [council/joint organisation] in accordance with our statutory requirements.

### Responsibilities

[Council/joint organisation] aims to create a positive risk management culture where risk management is integrated into all everyday activities and managing risks is an integral part of governance, good management practice and decision-making at [council/joint organisation]. It is the responsibility of every staff member and business area to observe and implement this policy and [council's/joint organisation's] risk management framework.

All staff are responsible for identifying and managing risk within their work areas. Key responsibilities include:

- being familiar with, and understanding, the principles of risk management
- complying with all policies, procedures and practices relating to risk management
- alerting management to risks that exist within their area, and
- performing any risk management activities assigned to them as part of their daily role.

Risk management is a core responsibility for all senior staff/management at [council/organisation]. In addition to their responsibilities as staff members, senior staff/management are responsible for:

- ensuring all staff manage their risks within their own work areas. Risks should be anticipated, and reasonable protective measures taken
- encouraging openness and honesty in the reporting and escalation of risks
- ensuring all staff have the appropriate capability to perform their risk management roles
- reporting to the [general manager/executive officer] on the status of risks and controls, and
- identifying and communicating improvements in [council's/joint organisation's] risk management practices to [council's/joint organisation's] risk management function.

[Council's/joint organisation's] risk management function is available to support staff in undertaking their risk management activities.

To ensure [council/joint organisation] is effectively managing its risk and complying with its statutory obligations, [council's/joint organisation's] audit, risk and improvement committee and internal audit function is responsible for reviewing the [council's/joint organisation's]:

- risk management processes and procedures
- risk management strategies for major projects or undertakings
- control environment and insurance arrangements
- business continuity planning arrangements, and
- fraud control plan.

## Monitoring and Review

[Council/joint organisation] is committed to continually improving its ability to manage risk. [Council/joint organisation] will review this policy and its risk management framework at least annually to ensure it continues to meet the requirements of the *Local Government Act 1993*, *Local Government (General) Regulation 2005*, and the [council's/joint organisation's] requirements.

## Further information

For further information on [council's/joint organisation's] risk management policy, framework and process, contact [name] on [email address] or by phone [phone number].

[signed – General Manager/Executive officer]

[name]

[date]

[review date]

# Appendix 6:

## Model Internal Audit Charter



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## Model Internal Audit Charter for local councils in NSW

[Council/joint organisation] has established the [name of internal audit function] as a key component of the [council's/joint organisation's] governance and assurance framework and in compliance with the *Guidelines for risk management and internal audit in local councils in NSW*. This Charter provides the framework for the conduct of the [name of internal audit function] in [council/joint organisation] and has been approved by the [governing body/board] taking into account the advice of the [council's/joint organisation's] audit, risk and improvement committee.

### Purpose of internal audit

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve a [council's/joint organisation's] operations. It helps a [council/joint organisation] accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes<sup>2</sup>.

Internal audit provides an independent and objective review and advisory service to provide advice to the [governing body/board], [general manager/executive officer] and audit, risk and improvement committee about the [council's/joint organisation's] governance processes, risk management and control frameworks and its external accountability obligations. It also assists the [council/joint organisation] to improve its business performance.

### Independence

[Council's/joint organisation's] [name of internal audit function] is to be independent of the [council/joint organisation] so it can provide an unbiased assessment of the [council's/joint organisation's] operations and risk and control activities.

[Name of internal audit function] reports functionally to the [council's/joint organisation's] audit, risk and improvement committee on the results of completed audits, and for strategic direction and accountability purposes, and reports administratively to the [general manager/executive officer] to facilitate day-to-day operations. Internal audit activities are not subject to direction by the [council/joint organisation] and the [council's/joint organisation's] management has no role in the exercise of the [council's/joint organisation's] internal audit activities.

The audit, risk and improvement committee is responsible for communicating any internal audit issues or information to the [governing body/board]. Should the [governing body/board] require additional information, a request for the information may be made to the Chair by resolution. The Chair may only provide the information requested by the [governing body/board] where the Chair is satisfied that it is reasonably necessary for the [governing body/board] to receive the information for the purposes of performing its functions under the Local Government Act. Individual [councillors/board members] are not entitled to request or receive information from the committee.

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<sup>2</sup> As defined by the International Standards for the Professional Practice of Internal Auditing (2017)

[Detail any delegations made by the general manager/executive officer regarding their internal audit responsibilities].

The [general manager/executive officer] must consult with the Chair of the [council's/joint organisation's] audit, risk and improvement committee before appointing or changing the employment conditions of the [head of internal audit function]. Where dismissal occurs, the [general manager/executive officer] must report to the [governing body/board] advising of the reasons why the [head of internal audit function] was dismissed.

Where the chair of the [council's/joint organisation's] audit, risk and improvement committee has any concerns about the treatment of the [head of internal audit function], or any action taken that may compromise the [head of internal audit function's] ability to undertake their functions independently, they can report their concerns to the [governing body/board].

The [head of internal audit function] is to confirm at least annually to the audit, risk and improvement committee the independence of internal audit activities from the [council/joint organisation].

## Authority

[Council/joint organisation] authorises the [name of internal audit function] to have full, free and unrestricted access to all functions, premises, assets, personnel, records and other documentation and information that the [head of the internal audit function] considers necessary to enable the [name of the internal audit function] to fulfil its responsibilities.

All records, documentation and information accessed while undertaking internal audit activities are to be used solely for the conduct of these activities. The [head of internal audit function] and individual internal audit staff are responsible and accountable for maintaining the confidentiality of the information they receive during their work.

All internal audit documentation is to remain the property of [council/joint organisation], including where internal audit services are performed by an external third-party provider.

Information and documents pertaining to the [name of the internal audit function] are not to be made publicly available. The [name of the internal audit function] may only release [council/joint organisation] information to external parties that are assisting the [name of the internal audit function] to fulfil its responsibilities with the approval of the [general manager/executive officer], except where it is being provided to an external investigative or oversight agency for the purpose of informing that agency of a matter that may warrant its attention.

## Role

The [name of internal audit function] is to support the [council's/joint organisation's] audit, risk and improvement committee to review and provide independent advice to the [council/joint organisation] in accordance with section 428A of the *Local Government Act 1993*. This includes conducting internal audits of [council/joint organisation] and monitoring the implementation of corrective actions.

The [name of internal audit function] is to also play an active role in:

- developing and maintaining a culture of accountability and integrity
- facilitating the integration or risk management into day-to-day business activities and processes, and
- promoting a culture of high ethical standards.

[Name of internal audit function] has no direct authority or responsibility for the activities it reviews. [Name of internal audit function] has no responsibility for developing or implementing procedures or systems and does not prepare records or engage in [council/joint organisation] functions or activities (except in carrying out its own functions).

## [Head of internal audit function]

### Option 1: In-house internal audit function

[Council's/joint organisation's] [name of internal audit function] is to be led by a member of [council's/joint organisation's] staff with sufficient skills, knowledge and experience to ensure it fulfils its roles and responsibilities to the [council/joint organisation] and its audit, risk and improvement committee. The [head of internal audit function] must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the [head on internal audit function] include:

- managing the day-to-day activities of the [name of internal audit function]
- managing the [council's/joint organisation's] internal audit budget
- supporting the operation of the [council's/joint organisation's] audit, risk and improvement committee
- approving internal audit project plans, conducting or supervising audits and assessments and providing independent advice to the audit, risk and improvement committee
- monitoring the [council's/joint organisation's] implementation of corrective actions that arise from the findings of audits
- fulfilling the Committee's annual work plan and four-yearly strategic plan
- ensuring the [council's/joint organisation's] internal audit activities comply with the *Guidelines on risk management and internal audit in local councils in NSW*, and
- contract management and oversight of supplementary external providers (where appropriate).

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

### Option 2: Outsourced internal audit function

[Council's/joint organisation's] [name of internal audit function] is to be led by a member of [council's/joint organisation's] staff with sufficient skills, knowledge and experience to ensure it fulfils its roles and responsibilities to the [council/joint organisation] and its audit, risk and improvement committee. The [head of internal audit function] must be independent, impartial, unbiased and objective when performing their work and free from any conflicts of interest.

Responsibilities of the [head on internal audit function] include:

- contract management
- managing the internal audit budget
- ensuring the external provider completes internal audits in line with the audit, risk and improvement committee's annual plan and four-yearly strategic plan
- forwarding audit reports by the external provider to the audit, risk and improvement committee
- acting as a liaison between the external provider and the audit, risk and improvement committee
- monitoring the [council's/joint organisation's] implementation of corrective actions that arise from the findings of audits and reporting progress to the audit, risk and improvement committee, and
- assisting the audit, risk and improvement committee to ensure the [council's/joint organisation's] internal audit activities comply with the *Guidelines on risk management and internal audit in local councils in NSW*.

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

## [Name of internal audit team]

### Option 1: In-house internal audit team

Members of the [name of internal audit function] are responsible to the [head of internal audit function].

Individuals that perform internal audit activities for [council/joint organisation] must have:

- an appropriate level of understanding of the [council's/joint organisation's] culture, systems and processes
- the skills, knowledge and experience necessary to conduct internal audit activities in the [council/joint organisation]
- effective interpersonal and communication skills to ensure they can partner with [council/joint organisation] staff effectively and collaboratively, and
- honesty, integrity and diligence.

[Details of any dual responsibilities and independence safeguards]

[Details of any shared arrangements]

### Option 2: Out-sourced internal audit team

[Council/joint organisation] is to contract an external third-party provider to undertake its internal audit activities. To ensure the independence of the external provider, the [head of internal audit function] is to ensure the external provider:

- does not conduct any audits on specific [council/joint organisation] operations or areas that they have worked on within the last two years
- is not the same provider conducting the [council's/joint organisation's] external audit
- is not the auditor of any contractors of the [council/joint organisation] that may be possibly subject to the internal audit, and
- is able to meet the [council's/joint organisation's] obligations under the *Guidelines on risk management and internal audit for local councils in NSW*.

The [head of internal audit function] must consult with the audit, risk and improvement committee and [general manager/executive officer] regarding the appropriateness of the skills, knowledge and experience of any external provider before they are engaged by the [council/joint organisation].

[Details of any shared arrangements]

## Performing internal audit activities

The work of the [name of internal audit function] is to be thoroughly planned and executed. The [council's/joint organisation's] audit, risk and improvement committee must develop a strategic plan every four years to ensure that all matters listed in Schedule 1 are reviewed by the Committee and the internal audit function over each council term. The strategic plan must be reviewed at least annually to ensure it remains appropriate.

The Committee is to also develop an annual workplan to guide the work of the internal audit function over the forward year.

All internal audit activities are to be performed in a manner that is consistent with relevant professional standards including the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and [\[current Australian risk management standard\]](#).

The [\[head of the internal audit function\]](#) is to provide the findings and recommendations of internal audits to the audit, risk and improvement committee at the end of each audit. Each report is to include a response from the relevant senior manager.

The [\[head of internal audit function\]](#) is to establish an ongoing monitoring system to follow up [\[council's/joint organisation's\]](#) progress in implementing corrective actions.

The [\[general manager/executive officer\]](#), in consultation with the audit, risk and improvement committee, is to develop and maintain policies and procedures to guide the operation of the [\[council's/joint organisation's\]](#) [\[name of internal audit function\]](#).

The [\[head of internal audit function\]](#) is to ensure that the audit, risk and improvement committee is advised at each of the committee's meetings of the internal audit activities completed during that quarter, progress in implementing the annual work plan and progress made implementing corrective actions.

## Conduct

Internal audit personnel are required to comply with the [\[council's/joint organisation's\]](#) code of conduct. Complaints about breaches of [\[council's/joint organisation's\]](#) code of conduct by internal audit personnel are to be dealt with in accordance with the *Procedures for the Administration of the Model Code of Conduct for Local Councils in NSW*. The [\[general manager/executive officer\]](#) must consult with the [\[council's/joint organisation's\]](#) audit, risk and improvement committee before any disciplinary action taken against the [\[head of the internal audit function\]](#) in response to a breach of the [\[council's/joint organisation's\]](#) Code of Conduct.

Internal auditors are also required to comply with the Code of Ethics for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

## Administrative arrangements

### Audit, risk and improvement committee meetings

The [\[head of the internal audit function\]](#) will attend audit, risk and improvement committee meetings as an independent non-voting observer. The [\[head of the internal audit function\]](#) can be excluded from meetings by the committee at any time.

The [\[head of the internal audit function\]](#) must meet separately with the audit, risk and improvement committee at least once per year.

The [\[head of the internal audit function\]](#) can meet with the chair of the audit, risk and improvement committee at any time, as necessary, in between committee meetings.

### External audit

Internal and external audit activities will be coordinated to help ensure the adequacy of overall audit coverage and to minimise duplication of effort.

Periodic meetings and contact between internal and external audit shall be held to discuss matters of mutual interest and to facilitate coordination.

External audit will have full and free access to all internal audit plans, working papers and reports.

### Dispute resolution

[Name of internal audit function] should maintain an effective working relationship with the [council/joint organisation] and the audit, risk and improvement committee and seek to resolve any differences they may have in an amicable and professional way via discussion and negotiation.

In the event of a disagreement between the [name of internal audit function] and the [council/joint organisation], the dispute is to be resolved by the [general manager/executive officer] and/or the audit, risk and improvement committee. Disputes between the [name of internal audit function] and audit, risk and improvement committee are to be resolved by the [governing body of the council/board of the joint organisation].

Unresolved disputes regarding compliance with statutory or other requirements are to be referred to the Secretary of the Department of Planning, Industry and Environment in writing.

### Review arrangements

[Council's/joint organisation's] audit, risk and improvement committee must review the performance of the internal audit function each year and report its findings to the [governing body/board]. A strategic review of the [name of internal audit function] must be conducted each council term that considers the views of an external party with a strong knowledge of internal audit on the performance of the [internal audit function] and reported to the [governing body/board].

This charter is to be reviewed annually by the Committee and once each council term by the [governing body/board]. Any substantive changes are to be approved by the [governing body/board].

## Further information

For further information on [council's/joint organisation's] internal audit activities contact [name] on [email address] or by phone [phone number].

Reviewed by [head of internal audit function]  
[sign and date]

Reviewed by Chair of the [council's/joint organisation's] audit, risk and improvement committee  
[sign and date]

Reviewed by [council/joint organisation] or in accordance with a resolution of the [governing body/board]  
[sign and date]  
[resolution reference]

## Schedule 1 – internal audit function responsibilities

*[Note: each council/joint organisation is to determine the responsibilities of its internal audit function Committee related to each matter listed in section 428A of the Local Government Act 1993 and list them in Schedule 1 to the council's/joint organisation's Internal Audit Charter. Suggested responsibilities are provided below and further detailed in core requirement 3 and Appendix 2 of these Guidelines.]*

### Audit

#### Internal audit

- Conduct internal audits as directed by the [council's/joint organisation's] audit, risk and improvement committee
- Implement the [council's/joint organisation's] annual and strategic internal audit work plans
- Monitor the implementation by [council/joint organisation] of corrective actions
- Assist the [council/joint organisation] to develop and maintain a culture of accountability and integrity
- Facilitate the integration of risk management into day-to-day business activities and processes, and
- Promote a culture of high ethical standards.

#### External audit

- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit and provide feedback on the audit services provided
- Review all external plans and reports in respect of planned or completed audits and monitor [council's/joint organisation's] implementation of audit recommendations
- Provide advice on action taken on significant issues raised in relevant external audit reports and better practice guides

### Risk

#### Risk management

Review and advise:

- if the [council's/joint organisation's] has in place a current and appropriate risk management framework that is consistent with the Australian risk management standard
- whether the [council's/joint organisation's] risk management framework is adequate and effective for identifying and managing the risks the [council/joint organisation] faces, including those associated with individual projects, programs and other activities
- if risk management is integrated across all levels of the [council/joint organisation] and across all processes, operations, services, decision-making, functions and reporting
- of the adequacy of risk reports and documentation, for example, the [council's/joint organisation's] risk register and risk profile
- whether a sound approach has been followed in developing risk management plans for major projects or undertakings
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- if [council/joint organisation] has taken steps to embed a culture which is committed to ethical and lawful behaviour
- if there is a positive risk culture within the [council/joint organisation] and strong leadership that supports effective risk management

- of the adequacy of staff training and induction in risk management
- how the [council's/joint organisation's] risk management approach impacts on the [council's/joint organisation's] insurance arrangements
- of the effectiveness of [council's/joint organisation's] management of its assets, and
- of the effectiveness of business continuity arrangements, including business continuity plans, disaster recovery plans and the periodic testing of these plans.

### Internal controls

Review and advise:

- whether [council's/joint organisation's] approach to maintaining an effective internal audit framework, including over external parties such as contractors and advisors, is sound and effective
- whether [council/joint organisation] has in place relevant policies and procedures and that these are periodically reviewed and updated
- whether appropriate policies and procedures are in place for the management and exercise of delegations
- whether staff are informed of their responsibilities and processes and procedures to implement controls are complied with
- if the [council's/joint organisation's] monitoring and review of controls is sufficient, and
- if internal and external audit recommendations to correct internal control weaknesses are implemented appropriately

### Compliance

Review and advise of the adequacy and effectiveness of the council's compliance framework, including:

- if the [council/joint organisation] has appropriately considered legal and compliance risks as part of the [council's/joint organisation's] risk management framework
- how the [council/joint organisation] manages its compliance with applicable laws, regulations, policies, procedures, codes, and contractual arrangements, and
- whether appropriate processes are in place to assess compliance.

### Fraud and corruption

Review and advise of the adequacy and effectiveness of the [council's/joint organisation's] fraud and corruption prevention framework and activities, including whether the [council/joint organisation] has appropriate processes and systems in place to capture and effectively investigate fraud-related information.

### Financial management

Review and advise:

- if [council/joint organisation] is complying with accounting standards and external accountability requirements
- of the appropriateness of [council's/joint organisation's] accounting policies and disclosures
- of the implications for [council/joint organisation] of the findings of external audits and performance audits and [council's/joint organisation's] responses and implementation of recommendations
- whether the [council's/joint organisation's] financial statement preparation procedures and timelines are sound
- the accuracy of the [council's/joint organisation's] annual financial statements prior to external audit, including:
  - management compliance/representations
  - significant accounting and reporting issues

- the methods used by the [council/joint organisation] to account for significant or unusual transactions and areas of significant estimates or judgements
- appropriate management signoff on the statements
- if effective processes are in place to ensure financial information included in the [council's/joint organisation's] report is consistent with signed financial statements
- if the [council's/joint organisation's] financial management processes are adequate
- the adequacy of cash management policies and procedures
- if there are adequate controls over financial processes, for example:
  - appropriate authorisation and approval of payments and transactions
  - adequate segregation of duties
  - timely reconciliation of accounts and balances
  - review of unusual and high value purchases
- if policies and procedures for management review and consideration of the financial position and performance of the [council/joint organisation] are adequate
- if [council's/joint organisation's] grants and tied funding policies and procedures are sound.

### Governance

Review and advise of the adequacy of the [council/joint organisation] governance framework, including the [council's/joint organisation's]:

- decision-making processes
- implementation of governance policies and procedures
- reporting lines and accountability
- assignment of key roles and responsibilities
- committee structure
- management oversight responsibilities
- human resources and performance management activities
- reporting and communication activities
- information and communications technology (ICT) governance, and
- management and governance of the use of data, information and knowledge

## Improvement

### Strategic planning

Review and advise:

- of the adequacy and effectiveness of the [council's/joint organisation's] IP&R processes
- if appropriate reporting and monitoring mechanisms are in place to measure progress against objectives, and
- whether the [council/joint organisation] is successfully implementing and achieving its IP&R objectives and strategies.

### Service reviews and business improvement

Review and advise:

- if [council/joint organisation] has robust systems to set objectives and goals to determine and deliver appropriate levels of service to the community and business performance
- if appropriate reporting and monitoring mechanisms are in place to measure service delivery to the community and overall performance, and
- how the [council/joint organisation] can improve its service delivery and the [council's/joint organisation's] performance of its business and functions generally

**Performance data and measurement**

Review and advise:

- if [council/joint organisation] has a robust system to determine appropriate performance indicators to measure the achievement of its strategic objectives
- if the performance indicators [council/joint organisation] uses are effective, and
- of the adequacy of performance data collection and reporting.

DRAFT



## Summary of changes to the proposed new risk management and internal audit framework in response to submissions

### Audit, Risk and Improvement Committees (ARIC)

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- More 'principles-based' approach to reduce prescription and assist councils and ARICs to focus on desired outcomes
- New tiered ARIC model for metropolitan, regional and rural/remote councils and joint organisations and county councils with reduced prequalification requirements to better reflect the different needs of councils and their ability to attract ARIC members
  - enables a mix of prequalified, non-prequalified, independent and councillor members
  - new eligibility criteria for non-prequalified and councillor members
- More flexibility in ARICs' role:
  - ARIC provides limited assurance rather than full assurance – role and reporting terminology changed to reflect this
  - ARIC reviews all matters listed in s428A of the *Local Government Act 1993* over the council term, rather than annually, and focuses on systems/controls in place
  - more flexibility for councils to shape ARICs' role depending on council needs
- More information about ARICs' new assurance role in relation to integrated planning and reporting, service delivery and performance measurement
- Clearer links between the ARIC and the governing body to ensure the governing body receives maximum value from ARIC's expertise:
  - workplans developed by ARIC and noted by the governing body
  - new annual and four-yearly assurance meetings between the ARIC and governing body to discuss ARIC opinions, workplans, charter, terms of reference etc
  - councils can appoint a non-voting councillor member to their ARIC (optional)
- Reduced ARIC costs:
  - ARIC member fees at council's discretion
  - reduced external review requirements
- Revised term limits to make it easier to appoint ARIC members:
  - ARIC member terms coincide with council terms
  - longer maximum terms
  - possible exemption from term limits where a tier 1 council can't find new ARIC members
- New information about ARICs' role and key relationships with other stakeholders
- ARIC members can have more local government experience:
  - some independence requirements reduced
  - new ability to allow local community perspective/knowledge as a criteria for appointment to an ARIC
- Stronger ARIC member appointment and induction processes
- Enhanced leadership role for the chair over the ARIC and ARIC meetings
- More flexibility for councils regarding confidentiality of ARIC agendas and minutes
- ARIC given unrestricted access to general manager and senior staff only – access to other staff requires general manager's approval

- New 'further resources' section that provides examples/templates/information regarding implementation of ARICs

### **Risk management**

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- More 'principles-based' approach to remove prescription and assist councils to focus on desired outcomes
- Clarification on how risk management requirements apply to joint organisations and county councils, and the role of internal audit and ARICs in risk management
- New ability for shared arrangements for county councils and joint organisations to reduce costs
- More flexibility in implementation and workforce resourcing:
  - risk management refocused as a 'function' rather than a dedicated position so it can be shared with other council roles and fit into council's existing organisational structure
  - general manager can delegate risk management to any staff member
  - removed need for responsibilities to be included in senior staff contracts
- More accountability by the council to the governing body and ARIC for risk management:
  - ARIC reviews risk management framework each council term – highest risks reviewed as required
  - effectiveness of risk management framework formally discussed with the governing body and ARIC annually and each council term
- New 'further resources' section that provides examples/templates/information regarding risk management implementation

### **Internal audit**

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- More 'principles-based' approach to remove prescription and assist councils to focus on desired outcomes
- Clarification of dual reporting line to the ARIC and general manager
- More flexibility to implement the internal audit function within council's existing organisational structure and attract internal audit staff:
  - new tiered model for in-house and outsourced internal audit functions to reflect practical requirements of councils and the varied roles required of the head of internal audit function in different councils
  - specific role title for the head of the internal audit function removed
  - internal audit function can report to a staff member other than the general manager
  - detailed eligibility criteria for internal audit staff replaced with requirement that they be able to fulfil their role
  - ability to combine head of internal audit function role with any other role in council provided safeguards are met
- Shared arrangements simplified:
  - oversight by councillor committee and administrative committee removed
  - prescription of practical arrangements removed
- New ability for ARIC Chair to refuse a person's future access to internal audit information where they make unauthorised disclosures of internal audit information

- Performance review process streamlined to reduce costs:
  - removed annual review report by head of internal audit function to ARIC
  - ARIC conducts annual and four-yearly strategic assessment of internal audit function
- New 'further resources' section provides templates, examples, checklists, tools etc that can be used when performing audits and assessing the performance of the internal audit function

### **Attestation**

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- Annual attestation to key non-negotiable requirements of the Guidelines
- General manager to consult with ARIC on annual attestation before it is published (co-signing removed)
- Increased accountability and transparency:
  - Department of Planning, Industry and Environment's response to attestation exemption to be published in annual report
  - ARIC member details to be published in attestation certificate
  - Attestation certificate template clarifies what councils are attesting to

### **Implementation timeline**

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- All councils must appoint an ARIC from 4 June 2022
- All councils have until 2024 to establish their risk management framework and internal audit function – attestation commences 2024
- Councils have until 2027 to ensure ARIC membership complies with the Guidelines, allowing councils to transition into the new membership requirements as and when membership of existing ARICs expire – attestation commences 2027

**Proposed issues for inclusion in a submission to the Office for Local Government****Risk Management and Internal Audit for Local Councils in NSW****1. Clarification of the role of the Audit, Risk, and Improvement Committee (ARIC) in Council finances**

It is recommended that the Guidelines be reviewed further to ensure it is clear throughout that the ARIC's role is limited to advisory and assurance purposes only, particularly with respect to Council financial results and reports.

The current wording contained on page 9 of the Guidelines with respect to Council's financial position and performance of the Guidelines for ARIC could be construed as giving ARIC broader remit than intended pursuant to s428A(d) of the *Local Government Act 1993*, which includes financial management. The assurance with respect to council financial results should continue to rest with the NSW Auditor-General and external audit processes. In particular, Byron Shire Council has a Finance Committee, and Financial Reports are regularly prepared for Council which is considered adequate transparency for Council financial affairs.

It is unclear what purpose is served by ARIC reviewing Council's financial statements prior to being certified by Council, given financial statements are subject to external audit.

**2. Costs to Council**

It is noted that the increased functions of ARIC are also likely to result in an increase in costs to Council. This is due to member fees for the prequalified member and the Chair which are expected to be more than currently paid (there is currently limited public information about these fees), furthermore it is expected that more than four meetings per year will likely occur in order to acquit the minimum range of functions and meetings required (eg the Guidelines require meetings between ARIC Chair and Mayor, meetings between ARIC Chair and internal audit staff). It is also noted that further costs will be incurred if Council is to:

- provide ARIC with secretariat support, in particular to assist in the coordination and preparation of a larger number of annual and four yearly reports/assessments;
- provide ARIC with a budget, or at least a means to be able to engage expertise (at Council's expense) as it considers necessary;
- be required to pay for members' fees for any additional meetings the ARIC considers necessary as it can elect to hold private meetings at its discretion with only voting members present (it is suggested such meetings be pre-approved by the General Manager or capped in some way so that it is not abused given no Council or staff representatives will be present);
- engage either a third party or peer reviewer to undertake an independent assessment of Council's performance every four years to review the effectiveness of the ARIC function;
- required to pay for fees for the ARIC to meet privately once per annum with the internal auditor without the General Manager;
- pay superannuation for ARIC members;
- undertake an annual search of members for bankruptcy each year on the National Personal Insolvency Index (to ensure members are not bankrupt);

- learning and development costs (it is considered that members should possess sufficient skills and qualifications prior to appointment and that Council should not be liable for learning and development costs they consider necessary to acquit their obligations as ARIC members);
- receive and coordinate responses to requests for information from ARIC members in order to fulfil the provision of direct and unrestricted access to council resources and information;
- insure members and Chairs for professional indemnity and public liability.

### **3. Tiers for Council ARIC membership but not for reporting requirements**

The Guidelines as presently drafted allocate Councils into a tiered system with respect to membership requirements that consider factors such as population, proximity to urban or regional centres, financial status, OLG understanding of Council performance and risk profile. Based on these factors it is requested that a corresponding tiered approach be applied to the level of detail and number of reports required to be produced by councils and ARIC to meet requirements particularly given tier 1 and tier 2 Councils may not have the resourcing of a tier 3 Council.

It is noted that in addition to the multiple new reporting requirements under the Guidelines there continues to be multiple layers of assurance including NSW Auditor-General, external audit, and internal audit, which would further support the proposition for a reduction in the number of reports required, or at least a minimum threshold for reports to reflect the tier allocation system.

### **4. Disputes between ARIC and General Manager – lack of process and appeal mechanism**

The Guidelines do not fully articulate the dispute resolution process for issues between ARIC and the General Manager or Senior Council staff. There is concern in assigning responsibility to Council for being the intermediary to resolve such disputes, when there is likely to be a Councillor on the ARIC. Councillors may have wider interests which they may inadvertently consider, particularly as the Council appoints the General Manager.

It is recommended that a third independent party be engaged from the outset to manage any dispute and potential bias and ensure that only relevant factors are considered. There should also be a clearly defined independent process to appeal any decision made in respect of the dispute, given the potential reputational and financial ramifications for Council and parties involved if an adverse finding is made.

### **5. Dismissal of members and appeal mechanisms**

The Guidelines note that ARIC members can be dismissed by the Council prior to the expiry of their term where the pre-qualified member has:

- breached conditions of the prequalification scheme or become ineligible
- breached council's code of conduct
- performed unsatisfactorily
- declared or is found to be in a position of conflict of interest which is unresolvable.

The similar list for non-prequalified members also expressly includes bankruptcy, and an adverse change in capacity or capability, or experienced an adverse change in business status. It is

unclear why the dismissal requirements are not consistent between the prequalified and non-prequalified members, nor what would be deemed satisfactory to constitute “an adverse change in business status” or “capacity”. Without a process there is concern it could result in a legal dispute to remove a member which could be costly, both financially and reputationally, to both Council and member concerned. It is also unclear how a Council would become aware of a bankrupt member, unless the member self-disclosed.

The Guidelines do not contain any procedure to investigate and determine a concern which might be raised nor how any concern should be raised with the governing body (Council) in the first instance. Furthermore, there is no appeal mechanism contained in the Guidelines which is important given any dismissal could have reputational impacts for all parties.

It is also requested the Guidelines consider what might happen in the situation where a member (prequalified or non-prequalified) is charged with a crime or has criminal proceedings commenced against them. Is it possible for a member to stand aside and a new member be appointed until such time as the matter is resolved? This would enable the ARIC to continue to function to full effect, particularly for tier 2 and tier 3 Councils where a loss of one member may affect quorum.

#### **6. Pre-qualification ARIC member requirement**

The rigour in meeting certain pre-qualification requirements (for the Chair of any ARIC, and for Byron Shire Council one other member) may make it challenging to attract suitably qualified candidates, or at least attract a range of quality candidates to consider. This is exacerbated by the increased demands on time by members under the new arrangements, and the process for qualification could make it a disincentive to those community members who possess the skills set and could make an important contribution but may already be successfully employed. Although there are regional centres within an hour of Council, factoring in travel time can be a disincentive to many busy people.

In a Local Government Area such as Byron Shire with a very small population (31,550 residents as at the 2016 ABS census) the requirement for pre-qualification of one member other than the Chair, could be challenging to fulfill. The tier 3 exemption should also apply to tier 2 councils if a suitable pre-qualified member cannot be found, particularly in light of the extensive independence requirements.

It is noted that ARICs can be shared by councils under a joint arrangement however, this may not be practical due to governing body preferences and time constraints on members of neighbouring ARICs.

#### **7. ARIC member independence requirements**

It is acknowledged that ARIC members should be independent, and this is essential in ensuring that there is confidence in their findings however, the prescriptive list contained in Guidelines (page 23) could disqualify many suitably qualified ARIC members given Byron Shire Council has a relatively small population (31,550 people as per 2016 ABS Census). It may be challenging to find a candidate who has not:

- provided services to Council within the past three years (it is acknowledged they should not be a current provider of services);
- run as a candidate in the last election of council;

- previously acted as an advocate of a material interest on behalf of the council (it is suggested this be capped within a timeframe);
- have a close family member who is a substantial shareholder, owner, officer, or employee of a company that has a material business, contractual relationship, direct financial interest with the council or a related entity. As Byron Shire has a small population, it is entirely conceivable that a well-qualified candidate may be precluded from seeking ARIC membership because their daughter works casually at a local café which occasionally provides catering to Council. It is considered this conflict could be declared and managed appropriately, however the Guidelines, as currently drafted, do not currently allow for Councils to exercise any discretion or measures necessary to manage such conflicts.

**8. Clarification of ARIC membership terms**

The Guidelines require clarification with respect to the ARIC membership terms, as page 26 states that members should be rotated periodically to avoid perceptions of bias or conflicts of interest, and that initial membership is four years (one council term). The Guidelines also state (on the same page) that membership renewal dates are to be staggered to ensure there is no loss of corporate knowledge.

If Councils must appoint for a four-year term, and the Guidelines do not provide any flexibility with length of membership terms, clarification would be appreciated as to how members can be appointed for a four-year term, and also fulfil the requirement for terms to be staggered.

**9. Chair membership prior to commencement of ARIC terms**

It is not clear from the Guidelines whether the prior service of a proposed Chair or Member of the ARIC is taken into account from June 2027. For example, is a Chair precluded from seeking membership of the ARIC if they served for six years immediately prior to the commencement of the ARIC membership provisions in June 2027? It is suggested the Guidelines provide explicit clarification on this matter.

**10. Appointment of staff to direct internal audit activities**

It is noted that for councils which elect to undertake internal audit functions in-house the requirement for the General Manager to consider the views of the ARIC prior to appointing the staff member to oversee the internal audit function is a fettering of the General Manager's employment discretion. As the ARIC undertakes an advisory and assurance role it should not have a role in the employment of staff.

**11. Internal Audit Function Reporting**

The Guidelines provide for the internal audit function to remain independent from council management and to do this it is proposed to have a dual reporting line:

1. Administratively to the General Manager (or other senior role);
2. Functionally to the ARIC.

The requirement for the General Manager to consult the ARIC Chair on the resourcing required by the internal audit function fetters the administrative powers of the General Manager who either employs or engages the internal auditors and who has budgetary and advisory considerations to Council (which for smaller councils could be considerable). If the internal

auditors believe they are insufficiently resourced for the work required there are several other avenues for them to raise concerns, including through the annual internal audit work plan process, assessment process, and at ARIC meetings.

It is unclear why it is proposed that the General Manager has no role in the reporting of the internal audit findings to the ARIC – if the General Manager is expected to prepare and implement action plans to address any internal audit findings, it is general practice for the internal auditors to canvas their findings with the General Manager prior to reporting to the ARIC. This ensures that the General Manager has the opportunity to ensure that findings are relevant and actionable by Council. It will also be the secretariat function that prepares the report on behalf of the internal auditors to the ARIC and generally such reports must be approved by the General Manager for inclusion in the ARIC agenda.

It is concerning that the ARIC is not required to consult or consider the priorities of the Council or consider concerns of the General Manager (who is charged with significant responsibility in ensuring Council complies with the *Local Government Act 1993* and other legislative and operational obligations), in setting the annual and four yearly work plans for the internal audit function.

**12. Clarification that the model terms of reference for ARIC do not need to be adopted before June 2027.**

It is not expressly stated in the Guidelines when the model terms of reference for the ARIC need to be adopted, only that the member provisions (which are in the terms of reference) must be in place by June 2027.

**Other issues which could be raised:**

13. Proxies are not permitted for ARIC members (quorum for a tier 2 council with the minimum three independent members is two voting members). This could create problems with ARIC meetings proceeding in a timely manner and impact delays in areas of council business if a meeting is delayed or does not proceed as more than one of the three voting members is absent.
14. There can only be one Councillor member (non-voting) and they must not be the Mayor.
15. The ARIC Chair can meet with the Mayor at any time and similarly the Mayor can request a meeting with ARIC Chair at any time.
16. The Guidelines recommend that the ARIC, General Manager, and Council meet (by calling an extraordinary meeting) each year to discuss the annual assessment. It is suggested that the means by which format of the annual assessment is more flexible (ie a separate section of a quarterly ARIC meeting).
17. It is unclear from the Guidelines if the Terms of Reference required to be adopted by the ARIC can form part of the Constitution or if it must be a separate document.
18. If the ARIC Chair disagrees with the attestation statement prepared by the General Manager which must be published in the council's annual report each year (the General Manager must also consider the views of the ARIC Chair) the Chair can submit their own report to Department of Planning, Industry, and Environment (DPIE). It is unclear what further action, if any, is taken by DPIE upon receipt of a separate report by the ARIC Chair.
19. Where a council chooses to outsource the internal audit function there should be greater flexibility for the position responsible within council for the outsourcing (and therefore with obligations to the ARIC) should be able to be a suitably qualified or experienced senior manager within Council rather than just be the staff member who provides coordination

and administrative support to the ARIC (refer page 59 of Guidelines). The Guidelines state that where an internal audit function is outsourced the Chair of the ARIC will do the “heavy lifting” and be the primary source of advice on findings and recommendations.

**Reporting Requirements for the ARIC proposed under the Guidelines**

<b>Number</b>	<b>Requirement</b>
1.	Adoption of a <b>Model Internal Audit Charter</b> .
2.	ARIC to review performance and efficacy of Council’s internal audit activities once per Council term and report to Council on outcome of review and recommendations.
3.	General Manager to include <b>attestation statement</b> in annual report indicating if ARIC, risk management framework and internal audit function complied with Guidelines – to be self-assessed by General Manager in consultation with ARIC.
4.	ARIC to review and provide advice on Council’s <b>internal audit activities</b> .
5.	ARIC activities relevant to council needs are to be agreed between ARIC and Council during <b>development of Terms of Reference</b> .
6.	ARIC to have a <b>strategic plan that covers 4 years</b> to ensure all matters in s428A of the LGA are covered (commensurate with risk profile and size of Council). It must be adopted at the start of the Council term, and reviewed annually.
7.	ARIC to develop an <b>annual work plan</b> in consultation with Council, General Manager, and head of internal audit function/senior managers.
8.	General Manager must, in consultation with ARIC, ensure there is a data collection or performance management system to collect data to measure KPIs.
9.	ARIC to provide <b>quarterly updates</b> to Council and General Manager, and it must happen after every meeting.
10.	ARIC to provide an <b>annual assessment</b> to Council each year. General Manager to receive an advance copy to develop an action plan to address issues identified and be jointly considered by Council.
11.	<b>Annual assessment meeting</b> between ARIC, Council and General Manager to discuss assessment report. Observers can be invited to attend where appropriate.
12.	<b>Strategic assessment every 4 years</b> on all matters listed in s428A of the LG Act. General Manager must be provided a copy of the assessment in advance to enable an action plan to be developed. The ARIC must develop a plan for any internal audit issues.
13.	<b>Strategic assurance meeting every 4 years</b> with ARIC, Council and GM to consider ARIC strategic assessment and action plans. It is suggested this be in the form of an extraordinary Council meeting (Guidelines).
14.	<b>Model Terms of Reference</b> must be developed between Council and ARIC to provide clear guidance on how it can serve Council.
15.	<b>Chair of ARIC and General Manager to meet regularly</b> to discuss key issues and review performance.
16.	<b>ARIC voting members only</b> to meet once a year with the external auditor.
17.	<b>ARIC Chair to meet with Council internal audit staff at least once per year</b> .
18.	<b>ARIC to review Council’s financial statements</b> before they are certified by Council.
19.	<b>ARIC Minutes must be approved by the Chair</b> before being circulated and once confirmed as accurate they must be signed by the Chair.
20.	<b>ARIC must meet privately once per annum</b> with <b>internal audit function head</b> and/or <b>external auditor</b> without General Manager.
21.	<b>General Manager</b> must appoint a Council employee to provide secretariat support to the ARIC.

## BYRON SHIRE COUNCIL

### STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

### 4.2 - ATTACHMENT 3

22.	ARIC will require a <b>budget</b> to support its members, any experts it wishes to engage etc. Council and ARIC Chair to agree at start of Council term on costs or alternatively the ARIC is to seek Council permission prior to engaging any external advice.
23.	<b>Learning and Development:</b> ARIC Chairs and members encouraged to keep informed of current developments and maintain and develop skills.
24.	<b>Council must conduct a 4 yearly review of effectiveness of ARIC function</b> in accordance with the International Professional Practice Framework. Can be outsourced or review internally but get it externally assessed or peer reviewed.
25.	<b>Notice periods</b> for Members resigning or not running for re-election to be <b>agreed by Council and ARIC</b> . Exit meetings to be offered.

## Report No. 4.3      Draft 2020/2021 Financial Statements

**Directorate:** Corporate and Community Services

**Report Author:** James Brickley, Manager Finance

**File No:** I2021/1642

### 5 Summary:

The Draft 2020/2021 Financial Statements have been prepared, and at the time of writing this report, subject to external audit, which is still in progress, albeit close to finalisation. Council's file has been lodged with the NSW Audit Office for review and has been subject to audit review by the contracted auditor, Thomas Noble and Russell.

- 10 This report recommends that the Audit, Risk and Improvement Committee recommends to Council the adoption of the Draft 2020/2021 Financial Statements as prepared and the completion of the statutory steps outlined in Section 418 to 420 of the Local Government Act 1993.

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### RECOMMENDATION:

**That the Audit, Risk and Improvement Committee recommend to Council:**

- 20 1. That Council adopts the Draft 2020/2021 Financial Statements incorporating the General Purpose Financial Statements (#E2021/127421) and Special Purpose Financial Statements (#E2021/127426).
- 25 2. That Council approves the signing of the "Statement by Councillors and Management" in accordance with Section 413(2)(c) of the Local Government Act 1993 and Section 215 of the Local Government (General) Regulation 2021 in relation to the 2020/2021 Draft Financial Statements.
- 30 3. That the Audited Financial Statements and Auditors Report be presented to the public at the Ordinary Meeting of Council scheduled for 25 November 2021 in accordance with Section 418(1) of the Local Government Act 1993.

### Attachments:

- 1 Draft 2020-2021 General Purpose Financial Statements, E2021/127421 , page 162[↓](#)
- 35 2 Draft 2020-2021 Special Purpose Financial Statements, E2021/127426 , page 244[↓](#)

## **Report**

The Draft 2020/2021 Financial Statements have been prepared, and at the time of writing this report, subject to external audit which is still in progress. Council's file has been lodged with the NSW Audit Office for review and has been subject to prior audit review by the contracted auditor to the NSW Audit Office, Thomas Noble and Russell.

This report recommends that the Audit, Risk and Improvement Committee recommends to Council, following consideration, the adoption of the Draft 2020/2021 Financial Statements as prepared and the completion of the statutory steps outlined in Section 418 to 420 of the Local Government Act 1993. It is anticipated that the report on the Conduct of the Audit will also be made available prior to this Committee Meeting and will be distributed by separate cover.

The Financial Statements are a statutory requirement and provide information on the financial performance of Council over the previous twelve-month period.

The Draft 2020/2021 Financial Statements provided in the attachments are broken down into:

- General Purpose Financial Statements – Attachment 1
- Special Purpose Financial Statements – Attachment 2

As in previous years, Council produces Special Schedules that are not audited (except Permissible Income for General Rates). However, from the 2018/2019 financial year, whilst the Special Schedules are still produced and submitted to the Office of Local Government, they are no longer required to be published as part of Council's Financial Statements, except for the Special Schedules relating to Permissible Income for General Rates and Report on Infrastructure Assets.

Brief explanations for each item follow:

### **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 2021 on a consolidated basis with internal transactions between Council's General, Water and Sewerage Funds eliminated. The notes included with 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.

### **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.

Mandatory disclosures in the Special Purpose Financial Reports are Water and Sewerage.

Additional disclosures relate to Council business units that Council deems 'commercial'. In this regard Council has traditionally reported its caravan park operations, being 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

All Council's business units are classed as Category 1 with all having operating turnover greater than \$2 million.

Another feature of the Special Purpose Financial Reports is to build taxes and charges, where not physically incurred, into the financial results in order that the results can be measured 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.
- 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.

The Special Purpose Financial Reports are prepared on a non-consolidated basis - in other words they are grossed up to include any internal transactions with the General Fund.

### Specific Items relating to 2020/2021 Draft Financial Statements

Before consideration is given to actual financial outcome, it needs to be pointed out that the Office of Local Government restructured the Local Government Code of Accounting Practice and Financial Reporting for the 2020/2021 financial year. This means that the notes to the General Purpose Financial Statements are now broken into Sections as follows:

- Section A – About Council and these Financial Statements
- Section B – Financial Performance
- Section C – Financial Position
- Section D – Council Structure
- Section E – Risks and Accounting Uncertainties
- Section F – People and Relationships
- Section G – Other Matters

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.3

- Section H – Additional Council Disclosures

Some line items previously within certain notes have been moved to other notes.

- 5 The Draft 2020/2021 Financial Statement results have been impacted by the following items that require explanation:

- Operating Result from Continuing Operations

- 10 The 2020/2021 financial year has seen a positive overall financial result. Council recorded a \$9.468million surplus compared to the \$23.778million surplus in 2019/2020. This result incorporates the recognition of capital revenues such as capital grants and contributions for specific purposes and asset dedications amounting to \$23.404 million, compared to \$32.021million in 2019/2020. Capital grants and contributions in 2019/2020 were
- 15 significantly influenced by additional grant funding i.e., from the Election Commitment Grant which has continued in 2020/2021 and recognising asset values for the former Byron Hospital over and above the \$1 purchase price.

- 20 A more important indicator is the operating result before capital grants and contributions. This result was a deficit of \$13.936 million in 2020/2021 compared to a deficit of \$8.243million in 2019/2020, representing an increase of \$5.693million between financial years. This indicates Council's operating expenditures exceeded its operating revenues. Whilst operating revenues, excluding capital grants and contributions, grew by \$4.571million, overall operating expenses grew by \$10.264million. Major contributors to
- 25 additional operating expenditure as non-cash expenses were due to the increase in depreciation expense (\$1.844million) and increase in net losses from disposal of assets (\$5.062million).

- 30 With reference to the Income Statement to the General Purpose Financial Reports included at Attachment 1, the following table indicates the major changes between 2020/2021 and 2019/2020 by line item:

Item	Change between 2020/2021 and 2019/2020 \$'000	Change Outcome	Comment
<b>Income</b>			
Rates & Annual Charges	+\$6,784	Increase	Reflects imposition of the final year of the 7.50% Special Rate Variation and changes in annual charges from Council's adopted 2020/2021 Revenue Policy.
User Charges and Fees	-\$489	Decrease	A contributor to this change was the change in residential sewerage charging to remove the volumetric charge in favour

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

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Item	Change between 2020/2021 and 2019/2020 \$'000	Change Outcome	Comment
			of a fixed charge. The volumetric charge was classified as a user charge and fee. Further information is available in Note B2-2 to Attachment 1.
Other Revenues	+\$184	Increase	The major increase in this item relates to fine revenues.
Grants & Contributions – Operating	-\$712	Decrease	Overall operating grants and contributions decreased by \$712k. Major difference is one-off stimulus funding Council received in 2019/2020 following the 2020 Bushfires. Further information is available in Note B2-4 to Attachment 1.
Grants & Contributions – Capital	-\$8,617	Decrease	Revenue decrease in this item mainly relates to the fact that in 2019/2020 Council recognised former Byron Hospital assets at fair value compared to the purchase price of \$1 (\$8.4million). Other than that capital grants and contributions have remained consistent. Further information is available in Note B2-4 to Attachment 1.
Interest and Investment Revenue	-\$1,145	Decrease	Interest rates during 2020-2021 have remained at historic lows, plus liquidity measures by the Reserve Bank during COVID-19 have reduced investment rates significantly, lowering the return on Council's investments. Cashflow around scale of works and recovering grant payments has also been an influence.
Other Income	-\$51	Decrease	Principally relates to change in disclosure regarding Byron Shire Council's share of a surplus for Richmond Tweed Regional Library for 2019/2020. For 2020/2021 this is allocated straight to the Statement of Comprehensive Income and Statement of Changes in Equity and was a loss of \$64k.
<b>Total Income Change</b>	<b>-\$4,046</b>	<b>Decrease</b>	
<b><u>Expenditure</u></b>			
Employee	+\$1,687	Increase	Decreased leave entitlement expenses of

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

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Item	Change between 2020/2021 and 2019/2020 \$'000	Change Outcome	Comment
Benefits and Oncosts			\$287k reflect an emphasis on controlling leave balances and the impact of declining interest rates on present value of liability calculations. A \$348k increase on superannuation payments. An increase of \$1,915k of employee costs capitalised on capital works in 2020/2021 compared to 2019/2020 and gross salary and wages increased \$3,349k. More information is provided at Note B3-1 to Attachment 1.
Borrowing Costs	-\$297	Decrease	Reduction due to ongoing repayment of existing loans and borrowing of new loans at lower interest rates given current market conditions.
Materials & Services	+\$1,793	Increase	Materials and Services increased \$1,793k overall. Changes include an additional \$116k in legal expenses (\$701k for the year), \$164k in insurance costs, \$170k for IT software costs, \$494k in waste contract costs, \$665k increase in temporary employment costs. Other changes can be found at Note B3-2 to Attachment 1.
Depreciation	+\$1,844	Increase	Respective changes between asset classes are outlined at Note B3-4 to Attachment 1. Essentially major increase is due to the revaluation of transport assets in 2019/2020 now flowing through with increased depreciation expense.
Other Expenses	+\$175	Increase	Overall small but there were variations in line items as disclosed at Note B3-5 to Attachment 1. The major item is an increased contribution to Richmond Tweed Regional Library of \$92k.
Net Losses from Disposal of Assets	+\$5,062	Increase	Reflects the written down value of assets disposed of 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 2020/2021, Council has significantly more disposals than gains,

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

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Item	Change between 2020/2021 and 2019/2020 \$'000	Change Outcome	Comment
			including the disposal of infrastructure \$7,634k, reflecting the level of capital works, plant and equipment \$183k gain. Further details can be found at Note B4-1 to Attachment 1
<b>Total Expenditure Change</b>	<b>+\$10,264</b>	<b>Increase</b>	
<b>Change in Result</b>	<b>-\$14,310</b>	<b>Decrease</b>	Decrease in overall surplus between financial years.

Following from the operating results, are the performance ratios at Note H1-1 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:

- Operating Performance Ratio reflects Council's operating result. The benchmark is to be greater than 0% but in 2019/2020 Council's ratio was -7.08% and in 2020/2021 it was -6.87%, a slight improvement. This ratio was impacted by some one-off items i.e., demolition costs of the former Mullumbimby Hospital and revenue losses due to COVID-19. Additionally in 2020/2021 it was significantly influenced by Council recognising over \$1.8million in expenditure restoring damaged infrastructure from the December 2020 and March 2021 natural disaster events but not recognising any corresponding revenues. Council has not gained funding approval for this expenditure at 30 June 2021 and therefore cannot recognise it even though the Council area was included in the declaration by State. Council needs to improve this result back towards the benchmark.
- Outstanding, Rates and Annual Charges – Whilst still within the industry benchmark, Council's ratio has increased to 8.33% in 2020/2021 from 7.32% in 2019/2020. The increase can be attributable not only to the last year of the special rate variation, and increases to rates plus annual charge increases but also to the impact of the COVID-19 pandemic. Through its assistance program Council has offered ratepayers extended payment arrangements and suspended debt recovery. Six months of the financial year also had interest on outstanding rates and charges set to 0% which whilst providing assistance, also reduces the incentive for people to pay.

- Asset Revaluations

5 During 2020/2021, a revaluation of assets relating to Operational Land, Buildings, Other Structures and Open Space Assets was undertaken. These revaluations have increased Council's asset values by the following amounts:

- Operational Land – \$74.652million
- 10 • Buildings – \$4.722million
- Other Structures and Open Space Assets - \$1.420million

15 For the upcoming 2021/2022 financial year, Council will need to consider the revaluation of Water and Sewerage Infrastructure assets given these assets have not been revalued since 2017 and are due for revaluation, albeit they are indexed annually between revaluations.

- Asset Recognition

20 As indicated at Note C1-7 to Council's financial statements, Council expended \$40.286million on asset renewals and \$3.179million 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 2020/2021 was \$17.529million so it is pleasing to see that asset renewal was significantly more than the financial depreciation of Council's assets.

- Cash and Investments

30 As at 30 June 2021 as detailed at Note C1-3 to the financial statements, Council has maintained \$0.518million in unrestricted cash and investments being a reduction of \$0.206million compared to 2019/2020. This is a satisfactory result given the ongoing impacts of COVID-19 and the assistance Council has endeavoured to provide the community during these uncertain times.

35 Whilst still dealing with COVID-19 Council was not able to restore one of its short term financial goals of reaching an unrestricted cash balance of \$1million by the end of 2020/2021. All other cash and investments totalling \$71.955million at 30 June 2021 are restricted for specific purposes. Overall, the cash and investment position of Council decreased by \$4.089million during the year.

- Receivables and Contract Assets

45 As at 30 June 2021 as detailed at Note C1-4 and C1-6 to the financial statements, Council was due \$13.027million in receivables and contract assets. Of this amount \$2.946million was due from other levels of Government for grants, \$1.074million from the Commonwealth Government for Goods and Services Tax and \$0.740million in Government grants and subsidies. Overall receivables and contract assets increased by \$0.553million compared to the 2019/2020 financial year.

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.3

- Payables, Contract Liabilities and Provisions

5 At 30 June 2021 as detailed at Note C3-1 for payables, Note C3-2 for Contract Liabilities, Note C3-4 for Employee Benefit Provisions and Note C3-5 for Provisions, total payables by Council were \$14.110million including \$4.323million held in security bonds, deposits and retentions, \$0.734million in accrued expenses and \$8.384million payable to suppliers. In addition at 30 June 2021, Council has accrued employee leave entitlements valued at 10 \$7.220million. Specific employee leave entitlements include \$2.635million for annual leave, \$4.429million for long service leave and \$0.156million for gratuities. At 30 June 2021 Council also had \$6.274million in contract liabilities relating to unexpended capital grants and advance bookings for its holiday parks. It has also made provisions of 15 \$7.972million for the restoration of landfill and quarry assets. In comparison to 2019/2020, total liabilities have increased \$4.454million.

- Loan Borrowings

20 During 2020/2021 Council borrowed new loans of \$1.750million and continued to make normal loan repayments.

Council's outstanding loans as at 30 June 2021 are \$61.058million. Total loan expenditure for 2019/2021 included interest of \$3.046million and principal payments of \$3.527million. Total expenditure in 2020/2021 related to loan repayments was \$6.573million or 7.96% of 25 Council's revenue, excluding all grants and contributions.

The outstanding loans by Fund totalling \$61.058million are as follows:

- General Fund \$22.858million
- 30 • Water Fund \$0 – Water Fund is debt free
- Sewerage Fund \$38.200million

- New Accounting Standards

35 The 2020-2021 financial year has required Council to implement the following new accounting standard:

- AASB 1059 – Service Concession Arrangements: Grantors

40 A position paper was presented to the Audit, Risk and Improvement Committee on 19 August 2021 suggesting after review that this new Accounting Standard had no impact on the financial reporting or results for Byron Shire Council.

45

### Liquidity

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.3

Council's Statement of Financial Position (balance sheet) indicates net current assets of \$46.082million. 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.

5 That is, there is no uncertainty as to Council being considered a 'going concern'. In addition, Council's cash expense cover ratio is at 9.36 months whereas the minimum benchmark is 3 months. Council exceeds this benchmark by three times.

10 Council's Unrestricted Current Ratio has declined to 2.41, demonstrating Council has \$2.41 in unrestricted current assets compared to every \$1.00 of unrestricted current liabilities. This exceeds the benchmark of \$1.50.

15 On a longer term basis Council will need to consider its financial position carefully. Nevertheless, in isolation, the financial results for 2020/2021 continue to present a 'stable' financial position especially given the ongoing impacts of COVID-19. Effort will need to be made to manage the trend towards reducing operational deficits before capital grants and contributions. Furthermore, it will be a goal to endeavour to restore the unrestricted cash balance back to \$1million during the 2021/2022 financial year which could not be achieved during 2020/2021.

20

## Strategic Considerations

### Community Strategic Plan and Operational Plan

CSP Objective	L2	CSP Strategy	L3	DP Action	L4	OP Activity
<b>Community Objective 5: We have community led decision making which is open and inclusive</b>	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

25

### Legal/Statutory/Policy Considerations

30 Section 413(2)(c) of the Local Government Act 1993 and Section 215 of the Local Government (General) Regulation 2021 requires Council to specifically 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:

In this regard the Financial Statements have been prepared in accordance with:

- The Local Government Act 1993 (as amended) and the Regulations made thereunder.

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

4.3

- The Australian Accounting Standards and professional pronouncements.
- The Local Government Code of Accounting Practice and Financial Reporting.

And the content to the best of our knowledge and belief:

- Presents fairly the Council's operating result and financial position for the year.
- Accords with Council's accounting and other records.
- Management is not aware of any matter that would render the Financial Statements false or misleading in any way.

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 2021.

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.

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 2021.

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 Auditor's Reports.

### Financial Considerations

There are no direct financial implications associated with this report as the report does not involve any future expenditure of Council funds but is a report advising on Council's draft financial outcomes during the 2020/2021 financial year, which are identified in this report and attachments. These financial outcomes are also still subject to final review by the NSW Audit Office and may change.

### Consultation and Engagement

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 2020/2021 Financial Statements, the closing date for submissions is expected to be 3 December 2021.

## Byron Shire Council

### GENERAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2021

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*Culturally rich and thriving communities living in harmony,  
responding positively to the challenges of our world, and  
leading by example.*



## Byron Shire Council

## General Purpose Financial Statements

for the year ended 30 June 2021

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Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
<b>Notes to the Financial Statements</b>	<b>10</b>

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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 B1-2.

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

### General Purpose Financial Statements

for the year ended 30 June 2021

### Understanding Council's Financial Statements

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#### Introduction

Each year NSW local governments are required to present 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 2021.

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.

**Byron Shire Council****General Purpose Financial Statements**

for the year ended 30 June 2021

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Statement by Councillors and Management made pursuant to Section 413(2)(c) of the *Local Government Act 1993* (NSW)

The attached general purpose financial statements have been prepared in accordance with:

- the *Local Government Act 1993* 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 28 October 2021.

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Michael Lyon  
**Mayor**  
28 October 2021

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Sarah Ndiaye  
**Deputy Mayor**  
28 October 2021

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Mark Arnold  
**General Manager**  
28 October 2021

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James Brickley  
**Responsible Accounting Officer**  
28 October 2021

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Income Statement | For the year ended 30 June 2021

### Byron Shire Council

#### Income Statement

for the year ended 30 June 2021

Original unaudited budget 2021	\$ '000	Notes	Actual 2021	Actual 2020
<b>Income from continuing operations</b>				
51,488	Rates and annual charges	B2-1	<b>52,004</b>	45,220
23,965	User charges and fees	B2-2	<b>27,108</b>	27,597
1,467	Other revenue	B2-3	<b>1,847</b>	1,663
4,906	Grants and contributions provided for operating purposes	B2-4	<b>7,990</b>	8,702
25,139	Grants and contributions provided for capital purposes	B2-4	<b>23,404</b>	32,021
1,486	Interest and investment income	B2-5	<b>657</b>	1,802
965	Other income	B2-6	<b>918</b>	969
109,416	<b>Total income from continuing operations</b>		<b>113,928</b>	117,974
<b>Expenses from continuing operations</b>				
29,100	Employee benefits and on-costs	B3-1	<b>29,830</b>	28,143
39,426	Materials and services	B3-2	<b>44,280</b>	42,487
3,093	Borrowing costs	B3-3	<b>3,075</b>	3,372
15,029	Depreciation, amortisation and impairment for non-financial assets	B3-4	<b>17,529</b>	15,685
2,224	Other expenses	B3-5	<b>2,295</b>	2,120
—	Net losses from the disposal of assets	B4-1	<b>7,451</b>	2,389
88,872	<b>Total expenses from continuing operations</b>		<b>104,460</b>	94,196
20,544	<b>Operating result from continuing operations</b>		<b>9,468</b>	23,778
20,544	<b>Net operating result for the year attributable to Council</b>		<b>9,468</b>	23,778
(4,594)	<b>Net operating result for the year before grants and contributions provided for capital purposes</b>		<b>(13,936)</b>	(8,243)

The above Income Statement should be read in conjunction with the accompanying notes.

Byron Shire Council | Statement of Comprehensive Income | For the year ended 30 June 2021

**Byron Shire Council**

**Statement of Comprehensive Income**

for the year ended 30 June 2021

<b>\$ '000</b>	<b>Notes</b>	<b>2021</b>	<b>2020</b>
<b>Net operating result for the year – from Income Statement</b>		<b>9,468</b>	<b>23,778</b>
<b>Other comprehensive income:</b>			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-7	<b>84,303</b>	115,711
Other comprehensive income – joint ventures and associates		<b>(64)</b>	–
<b>Total items which will not be reclassified subsequently to the operating result</b>		<b>84,239</b>	115,711
<b>Total other comprehensive income for the year</b>		<b>84,239</b>	115,711
<b>Total comprehensive income for the year attributable to Council</b>		<b>93,707</b>	139,489

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Statement of Financial Position | For the year ended 30 June 2021

### Byron Shire Council

### Statement of Financial Position

as at 30 June 2021

\$ '000	Notes	2021	2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	C1-1	41,368	37,327
Investments	C1-2	22,539	31,000
Receivables	C1-4	9,691	9,259
Inventories	C1-5	508	498
Contract assets and contract cost assets	C1-6	2,687	2,800
Other		17	17
<b>Total current assets</b>		<b>76,810</b>	<b>80,901</b>
<b>Non-current assets</b>			
Investments	C1-2	8,566	8,235
Receivables	C1-4	649	415
Infrastructure, property, plant and equipment	C1-7	1,094,182	992,431
Investments accounted for using the equity method	D2-1	1,142	1,206
<b>Total non-current assets</b>		<b>1,104,539</b>	<b>1,002,287</b>
<b>Total assets</b>		<b>1,181,349</b>	<b>1,083,188</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	C3-1	14,110	13,067
Contract liabilities	C3-2	6,274	1,489
Borrowings	C3-3	3,789	3,527
Employee benefit provisions	C3-4	6,555	6,086
<b>Total current liabilities</b>		<b>30,728</b>	<b>24,169</b>
<b>Non-current liabilities</b>			
Borrowings	C3-3	57,269	59,308
Employee benefit provisions	C3-4	665	690
Provisions	C3-5	7,972	8,013
<b>Total non-current liabilities</b>		<b>65,906</b>	<b>68,011</b>
<b>Total liabilities</b>		<b>96,634</b>	<b>92,180</b>
<b>Net assets</b>		<b>1,084,715</b>	<b>991,008</b>
<b>EQUITY</b>			
Accumulated surplus	C4-1	632,365	622,961
IPPE revaluation reserve	C4-1	452,350	368,047
<b>Council equity interest</b>		<b>1,084,715</b>	<b>991,008</b>
<b>Total equity</b>		<b>1,084,715</b>	<b>991,008</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Statement of Changes in Equity | For the year ended 30 June 2021

### Byron Shire Council

### Statement of Changes in Equity for the year ended 30 June 2021

	Notes	as at 30/06/21			as at 30/06/20		
		Accumulated surplus	IPPE revaluation reserve	Total equity	Accumulated surplus	IPPE revaluation reserve	Total equity
<b>\$ '000</b>							
Opening balance at 1 July		622,961	368,047	991,008	563,820	261,479	825,299
Correction of prior period errors		-	-	-	36,130	(9,143)	26,987
Changes due to AASB 1058 and AASB 15 adoption		-	-	-	(767)	-	(767)
<b>Restated opening balance</b>		<b>622,961</b>	<b>368,047</b>	<b>991,008</b>	<b>599,183</b>	<b>252,336</b>	<b>851,519</b>
Net operating result for the year		9,468	-	9,468	23,778	-	23,778
<b>Other comprehensive income</b>							
Gain (loss) on revaluation of infrastructure, property, plant and equipment	C1-7	-	84,303	84,303	-	115,711	115,711
Joint ventures and associates		(64)	-	(64)	-	-	-
<b>Other comprehensive income</b>		<b>(64)</b>	<b>84,303</b>	<b>84,239</b>	<b>-</b>	<b>115,711</b>	<b>115,711</b>
<b>Total comprehensive income</b>		<b>9,404</b>	<b>84,303</b>	<b>93,707</b>	<b>23,778</b>	<b>115,711</b>	<b>139,489</b>
<b>Closing balance at 30 June</b>		<b>632,365</b>	<b>452,350</b>	<b>1,084,715</b>	<b>622,961</b>	<b>368,047</b>	<b>991,008</b>

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

## 4.3 - ATTACHMENT 1

Byron Shire Council | Statement of Cash Flows | For the year ended 30 June 2021

### Byron Shire Council

### Statement of Cash Flows

for the year ended 30 June 2021

Original unaudited budget 2021	\$ '000	Notes	Actual 2021	Actual 2020
<b>Cash flows from operating activities</b>				
<b>Receipts:</b>				
51,488	Rates and annual charges		50,914	44,282
24,930	User charges and fees		26,901	28,834
1,486	Investment and interest revenue received		960	1,779
30,046	Grants and contributions		36,360	30,555
—	Bonds, deposits and retention amounts received		193	138
1,467	Other		2,693	2,571
<b>Payments:</b>				
(29,100)	Employee benefits and on-costs		(29,386)	(27,219)
(39,370)	Materials and services		(43,650)	(40,189)
(3,093)	Borrowing costs		(3,058)	(3,382)
(2,300)	Other		(2,307)	(2,066)
35,554	<b>Net cash flows from operating activities</b>	G1-1a	<b>39,620</b>	<b>35,303</b>
<b>Cash flows from investing activities</b>				
<b>Receipts:</b>				
—	Sale of investment securities		79,000	135,000
—	Sale of infrastructure, property, plant and equipment		453	401
—	Deferred debtors receipts		10	10
<b>Payments:</b>				
—	Purchase of investment securities		(71,039)	(126,280)
(85,442)	Purchase of infrastructure, property, plant and equipment		(42,226)	(36,381)
(85,442)	<b>Net cash flows from investing activities</b>		<b>(33,802)</b>	<b>(27,250)</b>
<b>Cash flows from financing activities</b>				
<b>Receipts:</b>				
27,000	Proceeds from borrowings		1,750	19,408
<b>Payments:</b>				
(3,514)	Repayment of borrowings		(3,527)	(20,723)
23,486	<b>Net cash flows from financing activities</b>		<b>(1,777)</b>	<b>(1,315)</b>
(26,402)	<b>Net change in cash and cash equivalents</b>		<b>4,041</b>	<b>6,738</b>
37,327	Cash and cash equivalents at beginning of year		37,327	30,589
10,925	<b>Cash and cash equivalents at end of year</b>	C1-1	<b>41,368</b>	<b>37,327</b>
39,105	plus: Investments on hand at end of year	C1-2	31,105	39,235
50,030	<b>Total cash, cash equivalents and investments</b>		<b>72,473</b>	<b>76,562</b>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## Byron Shire Council

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## Byron Shire Council

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## A About Council and these financial statements

### A1-1 Basis of preparation

These financial statements were authorised for issue by Council on 28 October 2021. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the 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 B5-1 Material budget variations

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain infrastructure, property, plant and equipment.

#### 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.

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 C1-7
- (ii) estimated remediation provisions – refer Note C3-5
- (iii) employee benefit provisions – refer Note C3-4

#### Significant judgements in applying the Council's accounting policies

- i. Impairment of receivables – refer Note C1-4.
- ii. Determination of whether performance obligations are sufficiently specific and whether the contract is within the scope of AASB 15 *Revenue from Contracts with Customers* and / or AASB 1058 *Income of Not-for-Profit Entities* – refer to Notes B2-2 – B2-4.

#### Monies and other assets received by Council

##### The Consolidated Fund

In accordance with the provisions of Section 409(1) of the *Local Government Act 1993*, 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.

continued on next page ...

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## A1-1 Basis of preparation (continued)

The Consolidated Fund has been included in the financial statements of the Council.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- General purpose operations
- Water service
- Sewerage service

### 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.

### Volunteer services

Council currently utilises the services of volunteers to assist in the management/operation of eleven community facilities under Section 355 of the *Local Government Act 1993*. The financial operations of these facilities in the main are contained within the financial outcomes of Council. The financial consideration relevant though to specific volunteer services (labour) has not been recognised in the financial statements as it is considered not material overall nor can it be reliably measured. That aside, whilst the financial consideration cannot be reliably measured, Council acknowledges the importance and appreciation of the support it receives from volunteers.

### 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 (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2021 reporting period.

Council has elected not to apply any of these pronouncements in these financial statements before their operative dates.

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 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current**

#### **AASB 2020-6 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date**

This Standard amends AASB 101 Presentation of Financial Statements to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current.

For example the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

**Council does not expect any material impact from the above amendments and to its classification of liabilities as current or non-current.**

This standard has an effective date for the 30 June 2024 reporting period.

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**A1-1 Basis of preparation (continued)****AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments**

This Standard amends a number of standards as follows:

- AASB 1 to simplify the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences,
- AASB 3 to update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations,
- AASB 9 to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability,
- AASB 116 to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset,
- AASB 137 to specify the costs that an entity includes when assessing whether a contract will be loss-making and
- AASB 141 to remove the requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

**Council does not expect any material impact from the above amendments.**

This standard has an effective date for the 30 June 2023 reporting period.

**New accounting standards adopted during the year**

During the year Council adopted the following accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which are mandatorily effective from 1 July 2020:

- AASB 1059 Service Concession Arrangements: Grantor and associated amendments
- AASB 2018-6 Amendments to Australian Accounting Standards - Definition of a business
- AASB 2018-7 Amendments to Australian Accounting Standards - Definition of material
- AASB 2019-3 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform
- AASB 2019-5 Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia
- AASB 2019-7 Amendments to Australian Accounting Standards - Disclosure of GFS Measures of Key Fiscal Aggregates and GAAP/GFS Reconciliations
- AASB 2020-4 Amendments to Australian Accounting Standards - COVID-19 Related Rent Concessions

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosure can be found at Note G4-1.

**COVID-19 Impact**

COVID-19 virus was declared a world-wide pandemic by the World Health Organisation in March 2020.

COVID-19 and even more so the associated government and societal measures to slow the spread of the virus have had a significant impact on global and local economies across communities and individuals. Council has not been isolated from the direct and indirect effects of COVID-19 and therefore has had to react to impacts caused but was well positioned to rise to the challenge. This challenge has continued in the 2020/2021 financial year albeit not as significant as the 2019/2020 financial year impact.

The financial impacts of COVID-19 for the reporting period are disclosed in these financial statement but in respect of Council's financial performance for the 2020/2021 financial year the following specific information can be provided:

**Additional revenue received to fund COVID-19 effects and initiatives were received from:**

- Commonwealth and State Government grants to stimulate the economy and provide employment to address the economic impact of COVID-19.

**Reduced income attributable to COVID-19 included in the following revenue sources compared to the previous financial year:**

- Interest Revenues - Interest on overdue rates and annual charges \$72k

continued on next page ...

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**A1-1 Basis of preparation (continued)**

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Additional COVID-19 expenditure incurred by Council:

- Directly identifiable costs involved in implementing public health order requirements, COVID-19 prevention etc \$147k

COVID-19 effects on Council's financial position at 30 June 2021

Council is of the view that its financial position has not been materially impacted however it has not been able to maintain one of its own internal financial benchmarks of \$1million in unrestricted cash. At 30 June 2021 Council's unrestricted cash balance has reduced to \$518k, a reduction of \$206k from the previous financial year. It is Council's position to recover the unrestricted cash balance as soon as practicable.

Due to Council extending assistance to ratepayers in the form of payment arrangements and suspension of debt recovery, Council's outstanding rates and annual charges percentage has increased from 7.32% in 2019/2020 to be 8.33% at 30 June 2021.

Going Concern

Despite both the impacts to date of COVID-19 and the future unknowns of COVID-19 in terms of its evolution, effects and duration, Council has determined that COVID-19 does not create any uncertainty as to Council continuing as a going concern.

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### B Financial Performance

#### B1 Functions or activities

##### B1-1 Functions or activities – income, expenses and assets

Income, expenses and assets have been directly attributed to the following functions or activities. Details of those functions or activities are provided in Note B1-2.										
\$ '000	Income		Expenses		Operating result		Grants and contributions		Carrying amount of assets	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020 <sup>1</sup>
<b>Functions or activities</b>										
We have, infrastructure, transport and services which meet our expectations	73,476	69,025	71,235	64,511	2,241	4,514	26,165	35,032	736,730	691,925
We cultivate and celebrate our diverse cultures, lifestyle and sense of community	5,805	5,989	20,109	17,624	(14,304)	(11,635)	1,933	1,760	236,731	215,589
We protect and enhance our natural environment	2,538	2,187	2,993	2,878	(455)	(691)	1,155	1,807	26,179	20,661
We manage growth and change responsibly	6,222	12,791	8,803	8,177	(2,581)	4,614	36	32	64,310	39,164
We have community led decision making which is open and inclusive	25,887	27,982	1,320	1,006	24,567	26,976	2,105	2,092	117,399	115,849
<b>Total functions and activities</b>	<b>113,928</b>	<b>117,974</b>	<b>104,460</b>	<b>94,196</b>	<b>9,468</b>	<b>23,778</b>	<b>31,394</b>	<b>40,723</b>	<b>1,181,349</b>	<b>1,083,188</b>

(1) See Note 16 b) for details regarding the restatement as a result of Prior Period Error

## B1-2 Components of functions or activities

---

Details relating to the Council's functions or activities as reported in B1-1 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.

**B2 Sources of income****B2-1 Rates and annual charges**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
<b>Ordinary rates</b>		
Residential	19,442	18,026
Farmland	1,350	1,228
Business	5,095	4,838
<b>Rates levied to ratepayers</b>	<b>25,887</b>	<b>24,092</b>
Pensioner rate subsidies received	219	218
<b>Total ordinary rates</b>	<b>26,106</b>	<b>24,310</b>
<b>Annual charges</b>		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	6,423	6,147
Stormwater management services	296	297
Water supply services	2,493	2,426
Sewerage services	15,466	10,963
Waste management services (non-domestic)	1,015	872
<b>Annual charges levied</b>	<b>25,693</b>	<b>20,705</b>
Pensioner subsidies received:		
– Water	75	75
– Sewerage	72	72
– Domestic waste management	58	58
<b>Total annual charges</b>	<b>25,898</b>	<b>20,910</b>
<b>Total rates and annual charges</b>	<b>52,004</b>	<b>45,220</b>

Council has used 2019 year valuations provided by the NSW Valuer General in calculating its rates.

**Accounting policy**

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.

## B2-2 User charges and fees

\$ '000	Timing	2021	2020
<b>Specific user charges</b>			
(per s.502 - specific 'actual use' charges)			
Water supply services	2	7,252	6,700
Sewerage services	2	2,062	4,731
<b>Total specific user charges</b>		<b>9,314</b>	<b>11,431</b>
<b>Other user charges and fees</b>			
<b>(i) Fees and charges – statutory and regulatory functions (per s.608)</b>			
Planning and building regulation	2	287	231
Private works – section 67	2	70	251
Regulatory/ statutory fees	2	96	75
Section 10.7 certificates (EP&A Act)	2	138	104
Section 603 certificates	2	110	71
Building inspections	2	668	527
Building services	2	552	324
Developer fees	2	1,095	981
Dog registration / release	2	49	47
Engineering services	2	3	7
Freedom of information	2	42	26
Health inspection	2	496	531
<b>Total fees and charges – statutory/regulatory</b>		<b>3,606</b>	<b>3,175</b>
<b>(ii) Fees and charges – other (incl. general user charges (per s.608))</b>			
Aerodrome	2	45	71
Caravan park	2	4,046	3,532
Cemeteries	2	220	234
Child care	2	781	973
Leaseback fees – Council vehicles	2	255	276
Parking fees	2	3,892	3,536
Tourism	2	–	(1)
Water connection fees	2	136	144
Administration and financial services	2	202	234
Public halls	2	233	228
Sewerage charges	2	282	266
Swimming pools	2	246	299
Other	2	126	137
Waste	2	3,724	3,062
<b>Total fees and charges – other</b>		<b>14,188</b>	<b>12,991</b>
<b>Total user charges and fees</b>		<b>27,108</b>	<b>27,597</b>
<b>Timing of revenue recognition for user charges and fees</b>			
User charges and fees recognised over time (1)		–	–
User charges and fees recognised at a point in time (2)		27,108	27,597
<b>Total user charges and fees</b>		<b>27,108</b>	<b>27,597</b>

### Accounting policy

Revenue arising from user charges and fees is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service or in some cases such as caravan parks, the customer is required to pay on arrival. There is no material obligation for Council in relation to refunds or returns.

Where an upfront fee is charged such as membership fees for the leisure centre the fee is recognised on a straight-line basis over the expected life of the membership. Licences granted by Council are all either short-term or low value and all revenue from licences is recognised at the time that the licence is granted rather than the term of the licence.

Byron Shire Council | Notes to the Financial Statements 30 June 2021

**B2-3 Other revenue**

<b>\$ '000</b>	<b>Timing</b>	<b>2021</b>	<b>2020</b>
Fines	2	<b>1,659</b>	1,304
Insurance claims recoveries	2	<b>21</b>	16
Sales – general	2	<b>74</b>	159
Legal Fees Recovery - Other	2	<b>–</b>	40
Workers Compensation	2	<b>93</b>	144
<b>Total other revenue</b>		<b>1,847</b>	<b>1,663</b>

**Timing of revenue recognition for other revenue**

Other revenue recognised over time (1)	<b>–</b>	<b>–</b>
Other revenue recognised at a point in time (2)	<b>1,847</b>	1,663
<b>Total other revenue</b>	<b>1,847</b>	<b>1,663</b>

**Accounting policy for other revenue**

Where the revenue is earned for the provision of specified goods / services under an enforceable contract, revenue is recognised when or as the obligations are satisfied.

Statutory fees and fines are recognised as revenue when the service has been provided, the payment is received or when the penalty has been applied, whichever occurs first.

Other revenue is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### B2-4 Grants and contributions

\$ '000	Timing	Operating 2021	Operating 2020	Capital 2021	Capital 2020
<b>General purpose grants and non-developer contributions (untied)</b>					
<b>General purpose (untied)</b>					
<b>Current year allocation</b>					
Financial assistance – general component	2	2,076	2,077	–	–
Financial assistance – local roads component	2	1,241	1,235	–	–
<b>Amount recognised as income during current year</b>		<b>3,317</b>	<b>3,312</b>	<b>–</b>	<b>–</b>
<b>Special purpose grants and non-developer contributions (tied)</b>					
<b>Cash contributions</b>					
<b>Previously specific grants:</b>					
<b>Pensioners' rates subsidies:</b>					
Animal Enforcement	2	–	4	–	–
Bushfire and emergency services	2	214	1,444	–	–
Child care	2	1,239	1,054	–	–
Community centres	2	–	–	252	316
Economic development	2	32	–	79	–
Library	2	147	142	–	–
Street lighting	2	55	55	–	–
transport (Roads to Recovery)	1	–	–	274	784
Transport (other roads and bridges funding)	1	–	7	16,635	18,241
Waste management	2	97	79	22	28
Emergency Services	2	134	46	–	88
Parks & Gardens	2	53	–	147	248
Community services	2	21	–	–	–
Planning	2	36	32	–	–
Crown lands maintenance	2	237	204	–	–
Environmental management	2	807	201	–	–
Employment & Training	2	29	15	–	–
Foreshore maintenance	2	–	28	–	–
Flood Restoration	2	–	56	–	–
Footpaths	2	–	–	6	335
<b>Previously contributions:</b>					
Roads and bridges	1	593	962	94	37
Transport for NSW contributions (regional roads, block grant)	2	737	861	–	–
Surf lifesaving	2	125	122	–	–
Other economic development	2	117	78	323	–
OLG - Crown Lands Contribution	2	–	–	–	–
<b>Total special purpose grants and non-developer contributions – cash</b>		<b>4,673</b>	<b>5,390</b>	<b>17,832</b>	<b>20,077</b>
<b>Non-cash contributions</b>					
Crown land devolved	2	–	–	–	–
Recreation and culture	2	–	–	–	–
Dedications – Assets	2	–	–	655	948
Purchase of Former Byron Bay Hospital	2	–	–	–	8,400
<b>Total other contributions – non-cash</b>		<b>–</b>	<b>–</b>	<b>655</b>	<b>9,348</b>
<b>Total special purpose grants and non-developer contributions (tied)</b>		<b>4,673</b>	<b>5,390</b>	<b>18,487</b>	<b>29,425</b>
<b>Total grants and non-developer contributions</b>		<b>7,990</b>	<b>8,702</b>	<b>18,487</b>	<b>29,425</b>

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**B2-4 Grants and contributions (continued)**

<b>\$ '000</b>	<b>Timing</b>	<b>Operating 2021</b>	<b>Operating 2020</b>	<b>Capital 2021</b>	<b>Capital 2020</b>
<b>Comprising:</b>					
– Commonwealth funding		<b>4,409</b>	5,256	<b>1,393</b>	1,966
– State funding		<b>2,619</b>	1,423	<b>11,550</b>	18,074
– Other funding		<b>962</b>	2,023	<b>5,544</b>	9,385
		<b>7,990</b>	<b>8,702</b>	<b>18,487</b>	<b>29,425</b>

**Developer contributions**

<b>\$ '000</b>	<b>Notes</b>	<b>Timing</b>	<b>Operating 2021</b>	<b>Operating 2020</b>	<b>Capital 2021</b>	<b>Capital 2020</b>
<b>Developer contributions:</b>						
<b>(s7.4 &amp; s7.11 - EP&amp;A Act, s64 of the LGA):</b>						
<b>Cash contributions</b>						
S 7.11 – contributions towards amenities/services		2	–	–	<b>2,063</b>	1,069
S 64 – water supply contributions		2	–	–	<b>667</b>	366
S 64 – sewerage service contributions		2	–	–	<b>2,187</b>	1,161
<b>Total developer contributions – cash</b>			<b>–</b>	<b>–</b>	<b>4,917</b>	<b>2,596</b>
<b>Total developer contributions</b>			<b>–</b>	<b>–</b>	<b>4,917</b>	<b>2,596</b>
<b>Total contributions</b>			<b>–</b>	<b>–</b>	<b>4,917</b>	<b>2,596</b>
<b>Total grants and contributions</b>			<b>7,990</b>	<b>8,702</b>	<b>23,404</b>	<b>32,021</b>
<b>Timing of revenue recognition for grants and contributions</b>						
Grants and contributions recognised over time (1)			<b>2,356</b>	–	<b>17,003</b>	–
Grants and contributions recognised at a point in time (2)			<b>5,634</b>	8,702	<b>6,401</b>	32,021
<b>Total grants and contributions</b>			<b>7,990</b>	<b>8,702</b>	<b>23,404</b>	<b>32,021</b>

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## B2-4 Grants and contributions (continued)

### Unspent grants and contributions

Certain grants and contributions are obtained by Council on the condition they be spent in a specified manner or in a future period but which are not yet spent in accordance with those conditions are as follows:

\$ '000	Operating 2021	Operating 2020	Capital 2021	Capital 2020
<b>Unspent grants</b>				
Unspent funds at 1 July	1,585	225	925	767
<b>Add:</b> Funds recognised as revenue in the reporting year but not yet spent in accordance with the conditions	618	1,486	–	–
<b>Add:</b> Funds received and not recognised as revenue in the current year	–	–	5,419	733
<b>Less:</b> Funds recognised as revenue in previous years that have been spent during the reporting year	(503)	(126)	–	–
<b>Less:</b> Funds received in prior year but revenue recognised and funds spent in current year	–	–	(811)	(575)
<b>Unspent grants at 30 June</b>	<b>1,700</b>	<b>1,585</b>	<b>5,533</b>	<b>925</b>
<b>Unspent Contributions</b>				
Unspent funds at 1 July	–	–	25,007	28,701
<b>Add:</b> Funds recognised as revenue in the reporting year but not yet spent in accordance with the conditions	–	–	5,134	3,064
<b>Add:</b> Funds received and not recognised as revenue in the current year	–	–	–	–
<b>Less:</b> Funds recognised as revenue in previous years that have been spent during the reporting year	–	–	–	–
<b>Less:</b> Funds received in prior year but revenue recognised and funds spent in current year	–	–	(8,020)	(6,758)
<b>Unspent contributions at 30 June</b>	<b>–</b>	<b>–</b>	<b>22,121</b>	<b>25,007</b>

### Accounting policy

#### Grants and contributions – enforceable agreement with sufficiently specific performance obligations

Grant and contribution revenue from an agreement which is enforceable and contains sufficiently specific performance obligations is recognised as or when control of each performance obligations is transferred.

The performance obligations vary according to the agreement. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Performance obligations may be satisfied either at a point in time or over time and this is reflected in the revenue recognition pattern. Point in time recognition occurs when the beneficiary obtains control of the goods / services at a single time (e.g. completion of the project when a report / outcome is provided), whereas over time recognition is where the control of the services is ongoing throughout the project (e.g. provision of community health services through the year).

Where control is transferred over time, generally the input methods being either costs or time incurred are deemed to be the most appropriate methods to reflect the transfer of benefit.

#### Capital grants

Capital grants received by Council under an enforceable contract for the acquisition or construction of infrastructure, property, plant and equipment to identified specifications which will be under Council's control on completion are recognised as revenue as and when the obligation to construct or purchase is completed.

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**B2-4 Grants and contributions (continued)**

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For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project.

For acquisitions of assets, the revenue is recognised when the asset is acquired and controlled by the Council.

**Developer contributions**

Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of sections 7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979* (EP&A Act).

While Council generally incorporates these amounts as part of a Development Consents Order, such developer contributions are only recognised as income upon receipt by Council, due to the possibility that individual development consents may not be acted upon by the applicant and, accordingly, would not be payable to Council.

Developer contributions may only be expended for the purposes for which the contributions were required, but Council may apply contributions according to the priorities established in work schedules for the contribution plan.

**Other grants and contributions**

Assets, including cash, received from other grants and contributions are recognised at fair value when the asset is received. Council considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

Once the assets and liabilities have been recognised then income is recognised for any remaining asset value at the time that the asset is received.

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**B2-5 Interest and investment income**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
<b>Interest on financial assets measured at amortised cost</b>		
– Overdue rates and annual charges (incl. special purpose rates)	139	211
– Cash and investments	687	1,417
<b>Fair value adjustments</b>		
– Movements in investments at fair value through profit and loss	(169)	174
Finance income on the net investment in the lease	–	–
<b>Total interest and investment income (losses)</b>	<b>657</b>	<b>1,802</b>
<b>Interest and investment income is attributable to:</b>		
<b>Unrestricted investments/financial assets:</b>		
Overdue rates and annual charges (general fund)	99	121
General Council cash and investments	328	1,122
<b>Restricted investments/funds – external:</b>		
Development contributions		
– Section 7.11	116	291
– Section 64	96	178
Water fund operations	18	30
Sewerage fund operations	–	60
<b>Total interest and investment income</b>	<b>657</b>	<b>1,802</b>

**Accounting policy**

Interest income is recognised using the effective interest rate at the date that interest is earned.

**B2-6 Other income**

<b>\$ '000</b>	<b>Notes</b>	<b>2021</b>	<b>2020</b>
<b>Rental income</b>			
<b>Other lease income</b>			
Room/Facility Hire		12	33
Property Agreements		657	658
Cavanbah Centre		249	225
<b>Total Other lease income</b>		<b>918</b>	<b>916</b>
<b>Total rental income</b>	C2-2	<b>918</b>	<b>916</b>
<b>Net share of interests in joint ventures and associates using the equity method</b>			
Associates		–	53
<b>Total net share of interests in joint ventures and associates using the equity method</b>	D2-1	<b>–</b>	<b>53</b>
<b>Total other income</b>		<b>918</b>	<b>969</b>

**B3 Costs of providing services****B3-1 Employee benefits and on-costs**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
Salaries and wages	<b>24,298</b>	20,949
Employee termination costs	<b>141</b>	67
Employee leave entitlements (ELE)	<b>4,653</b>	4,940
Superannuation	<b>2,786</b>	2,438
Workers' compensation insurance	<b>572</b>	501
Fringe benefit tax (FBT)	<b>43</b>	48
Payroll tax	<b>155</b>	123
Training costs (other than salaries and wages)	<b>289</b>	269
<b>Total employee costs</b>	<b>32,937</b>	<b>29,335</b>
Less: capitalised costs	<b>(3,107)</b>	(1,192)
<b>Total employee costs expensed</b>	<b>29,830</b>	<b>28,143</b>
Number of 'full-time equivalent' employees (FTE) at year end	<b>346</b>	325

**Accounting policy**

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 E3-1 for more information.

**B3-2 Materials and services**

<b>\$ '000</b>	<b>Notes</b>	<b>2021</b>	<b>2020</b>
Raw materials and consumables		<b>24,671</b>	24,987
– Caravan parks		<b>1,182</b>	1,088
– Cleaning		<b>294</b>	238
– Security		<b>52</b>	46
– Surf lifesaving		<b>598</b>	584
– Swimming pools		<b>449</b>	451
– Temporary employment		<b>3,276</b>	2,611
– Waste		<b>6,817</b>	6,323
Audit Fees	F2-1	<b>165</b>	175
Infringement notice contract costs (SEINS)		<b>250</b>	173
Expenses from leases of low value assets		<b>989</b>	981
<b>Previously other expenses:</b>			
Councillor and Mayoral fees and associated expenses	F1-2	<b>298</b>	288
Advertising		<b>97</b>	82
Bank charges		<b>143</b>	116
Computer software charges		<b>943</b>	773
Electricity and heating		<b>1,432</b>	1,156
Insurance		<b>1,027</b>	863
Postage		<b>99</b>	102
Printing and stationery		<b>75</b>	78
Street lighting		<b>364</b>	330
Telephone and communications		<b>267</b>	368
Valuation fees		<b>91</b>	89
<b>Legal expenses:</b>			
– Legal expenses: planning and development		<b>683</b>	440
– Legal expenses: other		<b>18</b>	145
<b>Total materials and services</b>		<b>44,280</b>	<b>42,487</b>

**Accounting policy**

Expenses are recorded on an accruals basis as the Council receives the goods or services.

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**B3-3 Borrowing costs**

<b>\$ '000</b>	<b>Notes</b>	<b>2021</b>	<b>2020</b>
<b>(i) Interest bearing liability costs</b>			
Interest on loans		<u>3,046</u>	<u>3,305</u>
<b>Total interest bearing liability costs</b>		<u><b>3,046</b></u>	<u><b>3,305</b></u>
<b>Total interest bearing liability costs expensed</b>		<u><b>3,046</b></u>	<u><b>3,305</b></u>
<b>(ii) Other borrowing costs</b>			
– Remediation liabilities	C3-5	<u>29</u>	<u>67</u>
<b>Total other borrowing costs</b>		<u><b>29</b></u>	<u><b>67</b></u>
<b>Total borrowing costs expensed</b>		<u><b>3,075</b></u>	<u><b>3,372</b></u>

**Accounting policy**

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.

**B3-4 Depreciation, amortisation and impairment of non-financial assets**

<b>\$ '000</b>	<b>Notes</b>	<b>2021</b>	<b>2020</b>
<b>Depreciation and amortisation</b>			
Plant and equipment		<b>1,080</b>	1,085
Office equipment		<b>12</b>	34
Furniture and fittings		<b>14</b>	15
Land improvements (depreciable)		<b>150</b>	182
<b>Infrastructure:</b>	C1-7		
– Buildings		<b>1,280</b>	1,271
– Other structures		<b>32</b>	38
– Roads		<b>6,443</b>	5,366
– Bridges		<b>418</b>	678
– Footpaths		<b>205</b>	169
– Stormwater drainage		<b>1,870</b>	730
– Water supply network		<b>1,429</b>	1,495
– Sewerage network		<b>3,039</b>	3,113
– Swimming pools		<b>56</b>	56
– Other open space/recreational assets		<b>560</b>	528
Right of use assets	C2-1	<b>–</b>	–
<b>Other assets:</b>			
– Other		<b>125</b>	127
<b>Reinstatement, rehabilitation and restoration assets:</b>			
– Tip assets	C3-5, C1-7	<b>517</b>	513
– Quarry assets	C3-5, C1-7	<b>299</b>	285
<b>Total gross depreciation and amortisation costs</b>		<b>17,529</b>	15,685
<b>Total depreciation and amortisation costs</b>		<b>17,529</b>	15,685
<b>Total depreciation, amortisation and impairment for non-financial assets</b>		<b>17,529</b>	15,685

**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 C1-7 Infrastructure, Property, Plant and Equipment.

**Impairment of non-financial assets**

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are no longer required to be tested for impairment under AASB 136. This is because these assets are assessed on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

Other assets that do not meet the criteria above 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.

Byron Shire Council | Notes to the Financial Statements 30 June 2021

**B3-5 Other expenses**

<b>\$ '000</b>	<b>Notes</b>	<b>2021</b>	<b>2020</b>
<b>Impairment of receivables</b>			
Other		<b>17</b>	11
<b>Total impairment of receivables</b>	C1-4	<b>17</b>	<b>11</b>
<b>Other</b>			
Contributions/levies to other levels of government			
– Bushfire fighting fund		<b>326</b>	228
– Emergency services levy (includes FRNSW, SES, and RFS levies)		<b>67</b>	53
– NSW fire brigade levy		<b>104</b>	93
– Far North Coast Weeds		<b>116</b>	113
– Other contributions/levies		<b>146</b>	191
Donations, contributions and assistance to other organisations (Section 356)		<b>56</b>	60
Richmond Tweed Regional Library		<b>1,463</b>	1,371
<b>Total other</b>		<b>2,278</b>	<b>2,109</b>
<b>Total other expenses</b>		<b>2,295</b>	<b>2,120</b>

**Accounting policy**

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

**B4 Gains or losses**

**B4-1 Gain or loss from the disposal, replacement and de-recognition of assets**

<b>\$ '000</b>	<b>Notes</b>	<b>2021</b>	<b>2020</b>
<b>Gain (or loss) on disposal of plant and equipment</b>	C1-7		
Proceeds from disposal – plant and equipment		<b>453</b>	401
Less: carrying amount of plant and equipment assets sold/written off		<b>(270)</b>	(274)
<b>Gain (or loss) on disposal</b>		<b>183</b>	127
<b>Gain (or loss) on disposal of infrastructure</b>	C1-7		
Less: carrying amount of infrastructure assets sold/written off		<b>(7,634)</b>	(2,516)
<b>Gain (or loss) on disposal</b>		<b>(7,634)</b>	(2,516)
<b>Gain (or loss) on disposal of investments</b>	C1-2		
Proceeds from disposal/redemptions/maturities – investments		<b>79,000</b>	135,000
Less: carrying amount of investments sold/redeemed/matured		<b>(79,000)</b>	(135,000)
<b>Gain (or loss) on disposal</b>		<b>–</b>	–
<b>Net gain (or loss) on disposal of assets</b>		<b>(7,451)</b>	(2,389)

**Accounting policy**

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.

## **B5 Performance against budget**

### **B5-1 Material budget variations**

Council's original budget was adopted by the Council on 30/07/2020 and is not required to be audited. The original projections on which the budget was based have been affected by a number of factors. These include state and federal government decisions, including new grant programs, changing economic activity, environmental factors, and by decisions made by Council.

While these General Purpose Financial Statements include the original budget adopted by Council, the Act requires Council to review its financial budget on a quarterly basis, so it is able to manage the variation between actuals and budget that invariably occur during the year.

**Material variations of more than 10%** between original budget and actual results or where the variance is considered material by nature are explained below.

**Variation Key:** **F** = Favourable budget variation, **U** = Unfavourable budget variation.

\$ '000	2021 Budget	2021 Actual	2021 ----- Variance -----	
<b>REVENUES</b>				
<b>Rates and annual charges</b>	<b>51,488</b>	<b>52,004</b>	<b>516</b>	<b>1% F</b>
<b>User charges and fees</b>	<b>23,965</b>	<b>27,108</b>	<b>3,143</b>	<b>13% F</b>
The original budget for 2020/2021 was set on a conservative basis given the unknown ongoing impacts of COVID-19 and potential for continuing revenue losses. However, actual results for user charges and fees exceeded or did not achieve the original budget in the following areas that accounts for the majority of the favourable budget variance:				
<ul style="list-style-type: none"> <li>First Sun Holiday Park revenues exceeded budget by \$1.174million.</li> <li>Suffolk Beachfront Holiday Park revenues exceeded budget by \$297k.</li> <li>Pay Parking fee revenues exceeded budget by \$2.085million.</li> <li>Sandhills Child Care Centre revenues did not achieve budget by \$313k</li> </ul>				
<b>Other revenues</b>	<b>1,467</b>	<b>1,847</b>	<b>380</b>	<b>26% F</b>
Actual results for Other Revenues exceeded the original budget by \$380k with the following items accounting for the majority of the favourable budget variance:				
<ul style="list-style-type: none"> <li>Fine revenue exceeded the original budget by \$199k</li> <li>Receipt of a Workers Compensation Insurance Rebate of \$93k not originally budgeted.</li> <li>Recovery proceeds from and insurance claim of \$21k not originally budgeted.</li> <li>Revenue from sale of carbon credits of \$23k not originally budgeted.</li> <li>Proceeds from sale related to a road closure \$47k not originally budgeted.</li> </ul>				
<b>Operating grants and contributions</b>	<b>4,906</b>	<b>7,990</b>	<b>3,084</b>	<b>63% F</b>
Actual results for Operating Grants and Contributions exceeded the original budget by \$3.084million with the following items accounting for the majority of the favourable variance:				
<ul style="list-style-type: none"> <li>Advance payment of 50% of the 2021/2022 Financial Assistance Grant \$1.7million received before 30 June 2021 with the advance payment not originally budgeted.</li> <li>Receipt of a number of Environmental Management grants amounting to \$807k that were not originally budgeted for.</li> </ul>				
<b>Capital grants and contributions</b>	<b>25,139</b>	<b>23,404</b>	<b>(1,735)</b>	<b>(7)% U</b>
<b>Interest and investment revenue</b>	<b>1,486</b>	<b>657</b>	<b>(829)</b>	<b>(56)% U</b>
Actual results for Interest and Investment Revenue did not meet the original budget by \$829k with the following items accounting for the majority of the unfavourable variance:				
<ul style="list-style-type: none"> <li>Interest on Investments did not meet original budget expectations by \$683k due to ongoing decline in interest rates that are now at historical low levels. With so much liquidity in the market, investment opportunities are at much lower rates than in previous years.</li> <li>Council's investment portfolio also incurred a fair value loss of \$170k that was not included in the original budget projections due to market conditions.</li> </ul>				
<b>Other income</b>	<b>965</b>	<b>918</b>	<b>(47)</b>	<b>(5)% U</b>

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**B5-1 Material budget variations (continued)**

\$ '000	2021 Budget	2021 Actual	2021 ----- Variance -----	
<b>EXPENSES</b>				
<b>Employee benefits and on-costs</b>	<b>29,100</b>	<b>29,830</b>	<b>(730)</b>	<b>(3)% U</b>
<b>Materials and services</b>	<b>39,426</b>	<b>44,280</b>	<b>(4,854)</b>	<b>(12)% U</b>
Actual results for Materials and Services exceeded the original budget by \$4.854million with the following items accounting for the majority of the unfavourable variance:				
<ul style="list-style-type: none"> <li>Legal expenses exceeded the original budget estimate by \$500k.</li> <li>Holiday park contractor costs exceeded the original budget estimate by \$249k which is understandable given the additional revenue generated.</li> <li>There was \$2.405million in capital expenditure included in the original budget that was not capitalised and is therefore expensed. This expenditure was not included in the original budget for Materials and Services.</li> <li>There is \$1.802million in expenditure associated with Materials and Services for the restoration of Council infrastructure due to three recent declared Natural Disaster events that was not included in the original budget estimate.</li> </ul>				
<b>Borrowing costs</b>	<b>3,093</b>	<b>3,075</b>	<b>18</b>	<b>1% F</b>
<b>Depreciation, amortisation and impairment of non-financial assets</b>	<b>15,029</b>	<b>17,529</b>	<b>(2,500)</b>	<b>(17)% U</b>
The original budget estimate for Depreciation and Amortisation was based off 2019/2020 actual Depreciation and Amortisation expense. The revaluation of roads, drainage and bridge assets in 2019/2020 has impacted the depreciation expense for 2020/2021 financial year resulting in an unfavourable budget variance of \$2.500million. Specifically depreciation expense exceeded or not exceeded the original budget estimate for the following items which accounts for the majority of the unfavourable variance:				
<ul style="list-style-type: none"> <li>Urban local roads exceeded the original budget \$571k.</li> <li>Sealed rural local roads exceeded the original budget by \$1.347million.</li> <li>Urban stormwater drainage exceeded the original budget by \$1.156million.</li> <li>Bridges depreciation expense was \$192k below the original budget estimate.</li> </ul>				
<b>Other expenses</b>	<b>2,224</b>	<b>2,295</b>	<b>(71)</b>	<b>(3)% U</b>
<b>Net losses from disposal of assets</b>	<b>–</b>	<b>7,451</b>	<b>(7,451)</b>	<b>∞ U</b>

**STATEMENT OF CASH FLOWS**

<b>Cash flows from operating activities</b>	<b>35,554</b>	<b>39,620</b>	<b>4,066</b>	<b>11% F</b>
Actual cash flows from operations exceeded the original budget estimate with a favourable budget variance overall of \$4.066million. The major items impacting this cash flow outcome are as follows:				
<ul style="list-style-type: none"> <li>Grant and Contributions receipts exceeded original budget estimate by \$5.805million - favourable variance.</li> <li>Materials and Services payments exceeded original budget estimate by \$4.280million - unfavourable variance.</li> <li>User Charges and Fees receipts exceeded original budget estimate by \$1.971million - favourable variance.</li> <li>Other receipts exceeded original budget estimate by \$1.226million - favourable variance.</li> <li>Interest and Investment receipts did not exceed original budget estimate by \$526k - unfavourable variance.</li> </ul>				
<b>Cash flows from investing activities</b>	<b>(85,442)</b>	<b>(33,802)</b>	<b>51,640</b>	<b>(60)% F</b>
Actual cash flows from investing activities did not meet the original budget estimate of \$85.442million by \$43.640million representing a favourable budget variance. The budget variance is related to the extent of capital works for the purchase of property, plant and equipment completed. There were a number of capital works projects included in the original budget estimate that were either not commenced or partially completed with the majority of the favourable budget variance attributable to the following items:				
<ul style="list-style-type: none"> <li>Dingo Lane Solar Farm \$11.829million budget not spent.</li> <li>Bio-Energy Facility \$14.401million budget not spent.</li> <li>Alternative Flow Path Project \$1.191million budget not spent.</li> <li>Yamblie Reservoir Roof \$475k budget not spent.</li> <li>Mullumbimby Water Supply Investigations \$172k budget not spent.</li> <li>Former Byron Bay Hospital Redevelopment \$3.500million budget not spent.</li> <li>Rehabilitation of Myocum Landfill \$3.000million budget not spent.</li> <li>Sandhills Activation and Skate Park \$1.607million budget not spent.</li> <li>Leachate Management System \$741k budget not spent.</li> </ul>				

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**B5-1 Material budget variations (continued)**

<b>\$ '000</b>	<b>2021 Budget</b>	<b>2021 Actual</b>	<b>2021 ----- Variance -----</b>	
<ul style="list-style-type: none"> <li>Suffolk Park Recreation Grounds \$212k budget not spent.</li> <li>Byron Creek Bridge \$334k budget not spent.</li> <li>Stuart Street Roadworks \$810k budget not spent.</li> <li>Coolamon Scenic Drive Roadworks \$632k budget not spent.</li> <li>Bangalow Road Roadworks \$424k budget not spent.</li> <li>Myocum Road Stage 1 Roadworks \$912k budget not spent.</li> <li>Gravel Resheeting \$173k budget not spent.</li> <li>Ruskin Street Roadworks \$184k budget not spent.</li> <li>Plant Purchases (net of sales) \$575k budget not spent.</li> <li>Major Roadworks Patching Program \$183k budget not spent.</li> <li>Mullumbimby I&amp;I Drainage Project \$249k budget not spent.</li> <li>Johnston Lane Casueway \$134k budget not spent</li> <li>South Byron Sewerage Treatment Plant Remediation \$136k budget not spent.</li> </ul>				
<b>Cash flows from financing activities</b>	<b>23,486</b>	<b>(1,777)</b>	<b>(25,263)</b>	<b>(108)% U</b>

Actual cash flows from financing activities did not exceed the original budget estimate by \$25.263million and represent an unfavourable budget variance. The original budget contained proposed loan borrowings of \$27million for the 2020/2021 financial year on the basis to fund construction budgets for both the Dingo Lane Solar Farm (\$12million) and Bio-Energy Facility (\$15million). Neither of these projects proceeded to construction in 2020/2021 but Council subsequently borrow \$1.750million that was not included in the original budget estimate to finalise the construction of the Byron Bay Bypass.

**C Financial position**

**C1 Assets we manage**

**C1-1 Cash and cash equivalents**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
<b>Cash and cash equivalents</b>		
Cash on hand and at bank	<b>1,523</b>	704
Cash-equivalent assets		
– Deposits at call	<b>21,845</b>	26,623
– Short-term deposits	<b>18,000</b>	10,000
<b>Total cash and cash equivalents</b>	<b>41,368</b>	<b>37,327</b>

**Reconciliation of cash and cash equivalents**

Total cash and cash equivalents per Statement of Financial Position	<b>41,368</b>	37,327
<b>Balance as per the Statement of Cash Flows</b>	<b>41,368</b>	<b>37,327</b>

**Accounting policy**

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.

## C1-2 Financial investments

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
<b>Debt securities at amortised cost</b>				
Long term deposits	22,539	–	31,000	–
NCD's, FRN's (with maturities > 3 months)	–	3,835	–	2,267
Other long term financial assets	–	4,731	–	5,968
<b>Total</b>	<b>22,539</b>	<b>8,566</b>	<b>31,000</b>	<b>8,235</b>
<b>Total financial investments</b>	<b>22,539</b>	<b>8,566</b>	<b>31,000</b>	<b>8,235</b>
<b>Total cash assets, cash equivalents and investments</b>	<b>63,907</b>	<b>8,566</b>	<b>68,327</b>	<b>8,235</b>

### Accounting policy

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.

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.

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### C1-3 Restricted cash, cash equivalents and investments

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Total cash, cash equivalents and investments	<b>63,907</b>	<b>8,566</b>	<b>68,327</b>	<b>8,235</b>
<b>attributable to:</b>				
External restrictions	<b>37,731</b>	<b>8,566</b>	40,959	8,235
Internal restrictions	<b>25,658</b>	–	26,644	–
Unrestricted	<b>518</b>	–	724	–
	<b>63,907</b>	<b>8,566</b>	<b>68,327</b>	<b>8,235</b>

\$ '000	2021	2020
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#### Details of restrictions

##### External restrictions – included in liabilities

Bonds and deposits	<b>2,508</b>	3,830
Specific purpose unexpended grants – general fund	<b>7,233</b>	925
<b>External restrictions – included in liabilities</b>	<b>9,741</b>	<b>4,755</b>

##### External restrictions – other

External restrictions included in cash, cash equivalents and investments above comprise:

Developer contributions – general	<b>11,122</b>	15,139
Developer contributions – water fund	<b>1,860</b>	1,484
Developer contributions – sewer fund	<b>8,872</b>	8,117
Transport for NSW contributions	<b>247</b>	247
Specific purpose unexpended grants (recognised as revenue) – general fund	–	1,585
Water fund	<b>9,578</b>	9,260
Sewer fund	<b>4,349</b>	7,781
Domestic waste management	<b>168</b>	15
Crown paid parking reserve	<b>212</b>	747
Crown reserve	<b>128</b>	44
Other	<b>20</b>	20
<b>External restrictions – other</b>	<b>36,556</b>	<b>44,439</b>
<b>Total external restrictions</b>	<b>46,297</b>	<b>49,194</b>

##### Internal restrictions

Council has internally restricted cash, cash equivalents and investments as follows:

Plant and vehicle replacement	<b>2,204</b>	1,966
Infrastructure renewal - Byron Bay	<b>511</b>	306
Infrastructure renewal reserve – non Byron Bay	<b>1,140</b>	630
Employees leave entitlement	<b>603</b>	633
Asset revaluation reserve	<b>11</b>	11
Bridge replacement fund	<b>18</b>	152
Brunswick Heads Memorial Hall	<b>29</b>	33
Byron Bay Library Exhibition Space	<b>28</b>	28
Byron Bay Library	<b>300</b>	306
Byron Senior Citizens Hall	<b>68</b>	52
Children's services	<b>118</b>	192
Community development	<b>386</b>	427
Council caravan parks	<b>2,617</b>	3,089
Economic development	<b>83</b>	152
Environmental levy	<b>23</b>	78
Financial assistance grant (in advance)	<b>1,716</b>	1,704
Footpath dining	<b>360</b>	327
General managers office	<b>82</b>	61

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**C1-3 Restricted cash, cash equivalents and investments (continued)**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
Human resources	399	352
Information technology	69	194
Information & technology service fee	209	99
Infrastructure services carryover	536	405
Land and natural environment	364	309
Land remediation	10	10
Legal services	14	500
On-site sewerage management reserve	472	358
Property	162	246
Quarry	692	617
Revolving energy fund	38	38
Risk management	243	156
Special events response and mitigation	–	164
South Golden Beach Hall	26	34
2017/2018 Special Rate Carryover Reserve	769	114
Stormwater	299	146
Suffolk Park Community Hall	16	9
Suffolk park open space	50	50
Unexpended loans	1,373	4,134
Waste management	6,347	5,713
Ocean Shores Community Centre	14	27
Council election	214	157
Grant management	–	29
Community Building Maintenance	432	372
WHS Incentive	40	40
Public Toilets	103	180
Volunteer Visitor Fund	26	17
Byron Bay Town Centre Masterplan	1,095	859
Mullumbimby Civic Hall	16	–
Property development	642	777
Environmental Enforcement Levy	191	91
Brunswick Valley Community Centre	–	–
Byron Bay Construction Contingency	300	300
Pay Parking Meter Replacement	200	–
<b>Total internal restrictions</b>	<b>25,658</b>	<b>26,644</b>
<b>Total restrictions</b>	<b>71,955</b>	<b>75,838</b>

Internal restrictions over cash, cash equivalents and investments are those assets restricted only by a resolution of the elected Council.

**C1-4 Receivables**

<b>\$ '000</b>	<b>2021 Current</b>	<b>2021 Non-current</b>	<b>2020 Current</b>	<b>2020 Non-current</b>
<b>Purpose</b>				
Rates and annual charges	4,058	455	3,025	217
Interest and extra charges	87	34	204	28
User charges and fees	3,856	–	3,463	–
Accrued revenues				
– Interest on investments	215	–	238	–
– Other income accruals	101	–	70	–
Net investment in finance lease	–	–	–	–
Deferred debtors	10	160	10	170
Government grants and subsidies	259	–	740	–
Net GST receivable	1,074	–	963	–
Pensioner subsidy	16	–	10	–
Transport for NSW	–	–	536	–
Miscellaneous water and sewer	54	–	30	–
<b>Total</b>	<b>9,730</b>	<b>649</b>	<b>9,289</b>	<b>415</b>
<b>Less: provision of impairment</b>				
User charges and fees	(39)	–	(30)	–
<b>Total provision for impairment – receivables</b>	<b>(39)</b>	<b>–</b>	<b>(30)</b>	<b>–</b>
<b>Total net receivables</b>	<b>9,691</b>	<b>649</b>	<b>9,259</b>	<b>415</b>
<b>Externally restricted receivables</b>				
<b>Water supply</b>				
– Specific purpose grants	3	–	2	–
– Rates and availability charges	3	–	2	–
– Other	2,453	–	1,996	–
<b>Sewerage services</b>				
– Specific purpose grants	3	–	2	–
– Rates and availability charges	1,248	–	737	–
– Other	855	–	1,268	–
<b>Total external restrictions</b>	<b>4,565</b>	<b>–</b>	<b>4,007</b>	<b>–</b>
<b>Unrestricted receivables</b>	<b>5,126</b>	<b>649</b>	<b>5,252</b>	<b>415</b>
<b>Total net receivables</b>	<b>9,691</b>	<b>649</b>	<b>9,259</b>	<b>415</b>

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**C1-4 Receivables (continued)**

\$ '000	2021	2020
<b>Movement in provision for impairment of receivables</b>		
Balance at the beginning of the year (calculated in accordance with AASB 139)	30	28
+ new provisions recognised during the year	9	2
<b>Balance at the end of the year</b>	<b>39</b>	<b>30</b>

**Accounting policy**

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**

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 presumption 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.

Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1.

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 significantly past due, 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.

Rates and annual charges outstanding are secured against the property.

## C1-5 Inventories

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
<b>(i) Inventories at cost</b>				
Stores and materials	508	–	498	–
<b>Total inventories at cost</b>	<b>508</b>	<b>–</b>	<b>498</b>	<b>–</b>
<b>Total inventories</b>	<b>508</b>	<b>–</b>	<b>498</b>	<b>–</b>

### Accounting policy

#### 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.

## C1-6 Contract assets and Contract cost assets

\$ '000	Notes	2021	2020
Contract assets	C1-6	2,687	2,800
<b>Total contract assets and contract cost assets</b>		<b>2,687</b>	<b>2,800</b>

### Contract assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
Government Grants and Subsidies - Roads and Cycleways	2,452	–	2,141	–
Government Grants and Subsidies - Bridges	235	–	659	–
<b>Total contract assets</b>	<b>2,687</b>	<b>–</b>	<b>2,800</b>	<b>–</b>

#### Significant changes in contract assets

During the 2020/2021 financial year, Council has continued to undertake significant roads projects that it is awaiting payment from other levels of government particularly associated with construction of the Byron Bay Bypass. Council has received payment during 2020/2021 for contract assets raised in 2020/2021 particularly relating to bridge projects.

### Accounting policy

#### Contract assets

Contract assets represent Council's right to payment in exchange for goods or services the Council has transferred to a customer when that right is conditional on something other than the passage of time.

Contract assets arise when the amounts billed to customers are based on the achievement of various milestones established in the contract and therefore the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer. Once an invoice or payment claim is raised or the relevant milestone is reached, Council recognises a receivable.

Impairment of contract assets is assessed using the simplified expected credit loss model where lifetime credit losses are recognised on initial recognition.

#### Contract cost asset – costs to fulfil a contract

Where costs are incurred to fulfil a contract and these costs are outside the scope of another accounting standard, they are capitalised as contract cost assets if the following criteria are met:

- the costs relate directly to a contract
- the costs generate or enhance resources of Council that will be used to satisfy performance obligations in the future and
- the costs are expected to be recovered.

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**C1-6 Contract assets and Contract cost assets (continued)**

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The capitalised costs are recognised in the Income statement on a systematic basis consistent with the timing of revenue recognition.

Refer to B3-4 for the accounting policy for impairment of contract cost assets.

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### C1-7 Infrastructure, property, plant and equipment

By aggregated asset class	At 1 July 2020			Asset movements during the reporting period								At 30 June 2021		
	Restated Gross carrying amount	Restated Accumulated depreciation	Net carrying amount	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation decrements to equity (ARR)	Revaluation increments to equity (ARR)	Restated Gross carrying amount	Restated Accumulated depreciation	Net carrying amount
\$ '000														
Capital work in progress	30,741	–	30,741	12,740	460	–	–	(21,976)	(505)	–	–	21,460	–	21,460
Plant and equipment	12,846	(8,734)	4,112	–	1,890	(270)	(1,080)	–	(10)	–	–	13,984	(9,342)	4,642
Office equipment	2,664	(2,593)	71	–	–	–	(12)	–	–	–	–	2,663	(2,604)	59
Furniture and fittings	276	(230)	46	–	–	–	(14)	–	–	–	–	275	(243)	32
<b>Land:</b>														
– Operational land	87,498	–	87,498	–	–	–	–	–	(177)	–	74,652	161,973	–	161,973
– Community land	105,078	–	105,078	–	–	–	–	–	–	–	–	105,078	–	105,078
– Crown land	56,237	–	56,237	–	–	–	–	–	–	–	–	56,236	1	56,237
– Land under roads (post 30/6/08)	363	–	363	–	44	–	–	–	–	–	1	409	(1)	408
Land improvements – depreciable	6,215	(2,993)	3,222	–	–	(1,829)	(150)	–	–	–	–	1,294	(52)	1,242
<b>Infrastructure:</b>														
– Buildings	86,116	(15,733)	70,383	672	252	(1,230)	(1,280)	194	(42)	–	4,722	91,615	(17,944)	73,671
– Other structures	2,481	(473)	2,008	–	–	(100)	(32)	–	–	(567)	–	4,412	(3,103)	1,309
– Roads	321,811	(121,505)	200,306	13,731	–	(924)	(6,443)	11,067	–	–	–	344,761	(127,024)	217,737
– Bridges	49,590	(5,722)	43,868	3,336	533	(1,921)	(418)	2,595	–	–	–	53,194	(5,201)	47,993
– Footpaths	12,198	(4,011)	8,187	513	–	(92)	(205)	911	–	–	–	13,448	(4,134)	9,314
– Bulk earthworks (non-depreciable)	35,790	–	35,790	1,166	–	(60)	–	1,310	–	–	–	38,206	–	38,206
– Stormwater drainage	181,921	(47,896)	134,025	3,014	–	(146)	(1,870)	3,143	–	–	–	187,864	(49,696)	138,168
– Water supply network	113,124	(44,189)	68,935	1,225	–	(335)	(1,429)	227	–	–	631	114,936	(45,682)	69,254
– Sewerage network	190,580	(75,868)	114,712	3,482	–	(579)	(3,039)	1,983	–	–	1,064	196,710	(79,087)	117,623
– Swimming pools	2,800	(777)	2,023	–	–	–	(56)	–	–	–	364	3,404	(1,073)	2,331
– Other open space/recreational assets	17,098	(5,507)	11,591	407	–	(417)	(560)	546	42	–	1,056	21,282	(8,617)	12,665
<b>Other assets:</b>														
– Other	2,238	(1,245)	993	–	–	–	(125)	–	–	–	–	2,238	(1,370)	868
<b>Reinstatement, rehabilitation and restoration assets (refer Note C3-5):</b>														
– Tip assets	12,685	(2,480)	10,205	–	–	–	(517)	–	(37)	–	1,395	14,285	(3,239)	11,046
– Quarry assets	3,106	(1,069)	2,037	–	–	–	(299)	–	143	–	985	4,234	(1,368)	2,866
<b>Total infrastructure, property, plant and equipment</b>	<b>1,333,456</b>	<b>(341,025)</b>	<b>992,431</b>	<b>40,286</b>	<b>3,179</b>	<b>(7,903)</b>	<b>(17,529)</b>	<b>–</b>	<b>(586)</b>	<b>(567)</b>	<b>84,870</b>	<b>1,453,961</b>	<b>(359,779)</b>	<b>1,094,182</b>

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

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# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### C1-7 Infrastructure, property, plant and equipment (continued)

By aggregated asset class	At 1 July 2019			Asset movements during the reporting period								At 30 June 2020		
	Restated Gross carrying amount	Restated Accumulated depreciation	Net carrying amount	Additions renewals <sup>1</sup>	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)		Restated Gross carrying amount	Restated Accumulated depreciation	Net carrying amount
<b>\$ '000</b>														
Capital work in progress	12,852	—	12,852	9,594	11,714	—	—	(3,419)	—	—		30,741	—	30,741
Plant and equipment	12,983	(9,076)	3,907	—	1,564	(274)	(1,085)	—	—	—		12,846	(8,734)	4,112
Office equipment	3,035	(2,930)	105	—	—	—	(34)	—	—	—		2,664	(2,593)	71
Furniture and fittings	296	(235)	61	—	—	—	(15)	—	—	—		276	(230)	46
<b>Land:</b>														
– Operational land	77,658	—	77,658	—	8,400	—	—	—	1,440	—		87,498	—	87,498
– Community land	78,760	—	78,760	—	364	—	—	—	—	25,954		105,078	—	105,078
– Crown land	45,544	—	45,544	—	—	—	—	—	—	10,693		56,237	—	56,237
– Land under roads (post 30/6/08)	260	—	260	—	7	—	—	—	—	96		363	—	363
Land improvements – depreciable	6,215	(2,811)	3,404	—	—	—	(182)	—	—	—		6,215	(2,993)	3,222
<b>Infrastructure:</b>														
– Buildings	85,673	(14,466)	71,207	339	—	(14)	(1,271)	122	—	—		86,116	(15,733)	70,383
– Other structures	2,311	(434)	1,877	152	—	—	(38)	17	—	—		2,481	(473)	2,008
– Roads	346,941	(153,739)	193,202	6,232	—	(93)	(5,366)	616	(434)	6,148		321,811	(121,505)	200,306
– Bridges	43,412	(10,371)	33,041	841	860	—	(678)	793	—	9,010		49,590	(5,722)	43,868
– Footpaths	10,050	(3,363)	6,687	372	—	(26)	(169)	57	568	698		12,198	(4,011)	8,187
– Bulk earthworks (non-depreciable)	32,415	—	32,415	224	—	(272)	—	21	—	3,403		35,790	—	35,790
– Stormwater drainage	99,870	(23,904)	75,966	814	—	(110)	(730)	73	20	57,992		181,921	(47,896)	134,025
– Water supply network	112,178	(42,927)	69,251	1,536	—	(998)	(1,495)	—	—	641		113,124	(44,189)	68,935
– Sewerage network	187,417	(72,128)	115,289	1,447	—	(192)	(3,113)	205	—	1,076		190,580	(75,868)	114,712
– Swimming pools	2,800	(721)	2,079	—	—	—	(56)	—	—	—		2,800	(777)	2,023
– Other open space/recreational assets	15,411	(5,212)	10,199	987	—	(287)	(528)	1,374	(154)	—		17,098	(5,507)	11,591
<b>Other assets:</b>														
– Other	3,766	(2,121)	1,645	—	—	(525)	(127)	—	—	—		2,238	(1,245)	993
<b>Reinstatement, rehabilitation and restoration assets (refer Note C3-5):</b>														
– Tip assets	14,072	(1,970)	12,102	—	46	—	(513)	140	(1,570)	—		12,685	(2,480)	10,205
– Quarry assets	2,739	(784)	1,955	—	—	—	(285)	—	367	—		3,106	(1,069)	2,037
<b>Total infrastructure, property, plant and equipment</b>	<b>1,196,658</b>	<b>(347,192)</b>	<b>849,466</b>	<b>22,538</b>	<b>22,955</b>	<b>(2,791)</b>	<b>(15,685)</b>	<b>(1)</b>	<b>237</b>	<b>115,711</b>		<b>1,333,456</b>	<b>(341,025)</b>	<b>992,431</b>

(1) Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

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**C1-7 Infrastructure, property, plant and equipment (continued)****Accounting policy**

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 Planning, Industry and Environment (DoPIE) - Best Practice Management Water Supply and Sewerage Guidelines.

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. 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:

<b>Plant and equipment</b>	<b>Years</b>	<b>Other equipment</b>	<b>Years</b>
Office equipment	5 to 10	Playground equipment	20 to 100
Office furniture	10 to 20	Benches, seats etc.	0 to 5
Computer equipment	4		
Vehicles	7 to 10		
Heavy plant/road making equipment	7 to 10		
Other plant and equipment	5 to 10		
<b>Buildings</b>		<b>Buildings</b>	
Envelope	40 to 150	Mechanical Services	30
Floors	40	Fire Services	30
Floor Coverings	17 to 34	Electrical Services	50
Internal Screens	20	Hydraulic Services	40
Roof	80		
<b>Water and sewer assets</b>		<b>Stormwater assets</b>	
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		
<b>Transportation assets</b>		<b>Other infrastructure assets</b>	
Sealed roads: surface	8 to 25	Bulk earthworks	Infinite
Sealed roads: structure	45 to 225	Swimming pools	50
Unsealed roads	12 to 36	Other open space / recreational assets	5 to 100
Bridge: concrete	60 to 100		
Bridge: other	60 to 100		
Road pavements	50		
Kerb, gutter and footpaths	80		

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.

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**C1-7 Infrastructure, property, plant and equipment (continued)**

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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.

Where the Crown reserves are under a lease arrangement they are accounted for under AASB 16 Leases, refer Note C2-1.

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". Council has elected to only recognise the assets it is of the view it controls.

## C2 Leasing activities

### C2-1 Council as a lessee

Council has a number of leases over a range of assets including land, buildings, and IT equipment. Information relating to the leases in place and associated balances and transactions is provided below.

#### Land and Buildings

Council has fourteen leases and licences for a variety of land and buildings as a lessee. These leases/licences are with the NSW Government and are often for minimal rentals, some of the agreements have no end dates and rentals generally increase in line with the Consumer Price Index on anniversary. Council has not outlined any right of use assets or lease liabilities for these leases/licences as it is of the view they are not material to the financial statements of Council.

#### Vehicles

Council does not lease any vehicles.

#### Office and IT equipment

Council leases all of its Information Technology equipment including servers, printers, WYSE terminals, laptops, and audio visual equipment.

The vast majority of these assets individually are below the low value threshold individually and therefore Council has taken the view that disclosure requirements of AASB 16 do not apply to this equipment. Council will continue to recognise the operating lease payments as an operating expense,

#### Accounting policy

At inception of a contract, Council assesses whether a lease exists – i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration?

Council has elected not to separate non-lease components from lease components for any class of asset and has accounted for payments as a single component.

At the lease commencement, Council recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where Council believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives received. The right-of-use asset is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Council's incremental borrowing rate for a similar term with similar security is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured when there is a lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

#### Exceptions to lease accounting

Council has applied the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. Council recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

#### Leases at significantly below market value / Concessionary leases

Council has elected to measure the right of use asset arising from the concessionary leases at cost which is based on the associated lease liability at initial recognition.

## C2-2 Council as a lessor

### Operating leases

Council leases out a number of properties to community groups and businesses. These leases have been classified as operating leases for financial reporting purposes.

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
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#### (i) Assets held as property, plant and equipment

Council provides operating leases on Council land and buildings for the purpose of community use such as property agreements, use of rooms/facility hire and the Cavanbah Centre.

Lease income	<b>918</b>	916
<b>Total income relating to operating leases for Council assets</b>	<b>918</b>	916

#### (ii) Maturity analysis of contractual lease income

Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:

< 1 year	<b>210</b>	316
1–2 years	<b>181</b>	269
2–3 years	<b>145</b>	246
3–4 years	<b>92</b>	143
4–5 years	<b>62</b>	105
> 5 years	<b>337</b>	373
<b>Total undiscounted lease payments to be received</b>	<b>1,027</b>	1,452

### C3 Liabilities of Council

#### C3-1 Payables

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
<b>Payables</b>				
Prepaid rates	669	–	488	–
Goods and services – operating expenditure	8,384	–	8,007	–
Accrued expenses:				
– Borrowings	136	–	148	–
– Other expenditure accruals	598	–	294	–
Security bonds, deposits and retentions	4,323	–	4,130	–
<b>Total payables</b>	<b>14,110</b>	<b>–</b>	<b>13,067</b>	<b>–</b>
<b>Total payables</b>	<b>14,110</b>	<b>–</b>	<b>13,067</b>	<b>–</b>

#### Payables relating to restricted assets

\$ '000	2021 Current	2021 Non-current	2020 Current	2020 Non-current
<b>Externally restricted assets</b>				
Sewer	120	–	1,407	–
Bonds and deposits	4,323	–	4,131	–
Payables relating to externally restricted assets	4,443	–	5,538	–
<b>Total payables relating to restricted assets</b>	<b>4,443</b>	<b>–</b>	<b>5,538</b>	<b>–</b>
<b>Total payables relating to unrestricted assets</b>	<b>9,667</b>	<b>–</b>	<b>7,529</b>	<b>–</b>
<b>Total payables</b>	<b>14,110</b>	<b>–</b>	<b>13,067</b>	<b>–</b>

#### Accounting policy

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.

#### 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.

### C3-2 Contract Liabilities

\$ '000	Notes	2021 Current	2021 Non-current	2020 Current	2020 Non-current
<b>Grants and contributions received in advance:</b>					
Unexpended capital grants (to construct Council controlled assets)	(i)	5,533	–	925	–
<b>Total grants received in advance</b>		<b>5,533</b>	<b>–</b>	<b>925</b>	<b>–</b>
<b>User fees and charges received in advance:</b>					
Advance bookings - holiday parks	(ii)	741	–	564	–
<b>Total user fees and charges received in advance</b>		<b>741</b>	<b>–</b>	<b>564</b>	<b>–</b>
<b>Total contract liabilities</b>		<b>6,274</b>	<b>–</b>	<b>1,489</b>	<b>–</b>

**Notes**

(i) Council has received funding to construct infrastructure assets. The funds received are under an enforceable contract which require Council to construct an identified asset which will be under Council's control on completion. The revenue is recognised as Council constructs the asset and the contract liability reflects the funding received which cannot yet be recognised as revenue. The revenue is expected to be recognised in the next 12 months.

(ii) Advance booking fees for Council's holiday parks do meet the definition of a performance obligation and therefore the funds received are recorded as a contract liability on receipt and recognised as revenue when the customer has completed their booking by virtue of their stay at the holiday park.

**Revenue recognised that was included in the contract liability balance at the beginning of the period**

\$ '000	2021	2020
<b>Grants and contributions received in advance:</b>		
Capital grants (to construct Council controlled assets)	810	575
<b>User fees and charges received in advance:</b>		
Advance bookings - holiday parks	–	32
<b>Total revenue recognised that was included in the contract liability balance at the beginning of the period</b>	<b>810</b>	<b>607</b>

**Significant changes in contract liabilities**

In light of the response to COVID-19, Council has received grant funding for economic stimulus and infrastructure renewal to which it has not completed its performance obligations as at 30 June 2021. As an example, Council received an advance payment under the Fixing Local Roads Program of \$2.2million for fixing roads at Ocean Shores near the end of the 2021/2022 financial year for works to be completed in the 2021/2022 financial year.

**Accounting policy**

Contract liabilities are recorded when consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

**C3-3 Borrowings**

<b>\$ '000</b>	<b>2021 Current</b>	<b>2021 Non-current</b>	<b>2020 Current</b>	<b>2020 Non-current</b>
Loans – secured <sup>1</sup>	<b>3,789</b>	<b>57,269</b>	3,527	59,308
<b>Total borrowings</b>	<b>3,789</b>	<b>57,269</b>	<b>3,527</b>	<b>59,308</b>

(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.

**Borrowings relating to restricted assets**

<b>\$ '000</b>	<b>2021 Current</b>	<b>2021 Non-current</b>	<b>2020 Current</b>	<b>2020 Non-current</b>
<b>Externally restricted assets</b>				
Sewer	<b>2,501</b>	<b>35,699</b>	2,372	38,200
Borrowings relating to externally restricted assets	<b>2,501</b>	<b>35,699</b>	2,372	38,200
<b>Total borrowings relating to restricted assets</b>	<b>2,501</b>	<b>35,699</b>	2,372	38,200
<b>Total borrowings relating to unrestricted assets</b>	<b>1,288</b>	<b>21,570</b>	<b>1,155</b>	<b>21,108</b>
<b>Total borrowings</b>	<b>3,789</b>	<b>57,269</b>	<b>3,527</b>	<b>59,308</b>

**Current borrowings not anticipated to be settled within the next twelve months**

The following borrowings, even though classified as current, are not expected to be settled in the next 12 months.

**(a) Changes in liabilities arising from financing activities**

	2020		Non-cash movements				2021
<b>\$ '000</b>	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	62,835	(1,777)	–	–	–	–	61,058
<b>Total liabilities from financing activities</b>	<b>62,835</b>	<b>(1,777)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>61,058</b>

	2019		Non-cash movements				2020
<b>\$ '000</b>	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	64,150	(1,315)	–	–	–	–	62,835
<b>Total liabilities from financing activities</b>	<b>64,150</b>	<b>(1,315)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>62,835</b>

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**C3-3 Borrowings (continued)****(b) Financing arrangements**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
<b>Total facilities</b>		
Bank overdraft facilities <sup>1</sup>	<b>1,000</b>	1,000
Credit cards/purchase cards	<b>185</b>	185
<b>Total financing arrangements</b>	<b>1,185</b>	1,185
<b>Drawn facilities</b>		
– Credit cards/purchase cards	<b>5</b>	2
<b>Total drawn financing arrangements</b>	<b>5</b>	2
<b>Undrawn facilities</b>		
– Bank overdraft facilities	<b>1,000</b>	1,000
– Credit cards/purchase cards	<b>180</b>	183
<b>Total undrawn financing arrangements</b>	<b>1,180</b>	1,183

**Additional financing arrangements information****Breaches and defaults**

During the current and prior year, there were no defaults or breaches on any of the loans.

(1) The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

**Accounting policy**

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.

**C3-4 Employee benefit provisions**

<b>\$ '000</b>	<b>2021 Current</b>	<b>2021 Non-current</b>	<b>2020 Current</b>	<b>2020 Non-current</b>
Annual leave	<b>2,635</b>	–	2,348	–
Long service leave	<b>3,764</b>	<b>665</b>	3,582	690
Gratuities	<b>156</b>	–	156	–
<b>Total employee benefit provisions</b>	<b>6,555</b>	<b>665</b>	<b>6,086</b>	<b>690</b>

**Employee benefit provisions relating to restricted assets**

There are no restrictions (internal or external) relating to any of these provisions.

**Current employee benefit provisions not anticipated to be settled within the next twelve months**

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**C3-4 Employee benefit provisions (continued)**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
The following provisions, even though classified as current, are not expected to be settled in the next 12 months.		
Provisions – employees benefits	<b>3,927</b>	3,667
	<b>3,927</b>	<b>3,667</b>

**Description of and movements in provisions**

<b>\$ '000</b>	<b>ELE provisions</b>			<b>Total</b>
	<b>Annual leave</b>	<b>Long service leave</b>	<b>Other employee benefits</b>	
<b>2021</b>				
At beginning of year	2,348	4,272	156	6,776
Additional provisions	2,065	703	24	2,792
Amounts used (payments)	(1,778)	(546)	(24)	(2,348)
Total ELE provisions at end of year	<b>2,635</b>	<b>4,429</b>	<b>156</b>	<b>7,220</b>
<b>2020</b>				
At beginning of year	2,044	3,654	154	5,852
Additional provisions	1,970	1,059	2	3,031
Amounts used (payments)	(1,666)	(441)	–	(2,107)
Total ELE provisions at end of year	<b>2,348</b>	<b>4,272</b>	<b>156</b>	<b>6,776</b>

**Accounting policy**

Employee benefit provisions are presented as current liabilities in the Statement of Financial Position if Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur and therefore all annual leave and vested long service leave (or that which vests within 12 months) is presented as current.

**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.

**On-costs**

The employee benefit provisions include the aggregate on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation, payroll tax and workers compensation expenses which will be payable upon the future payment of certain leave liabilities which employees are entitled to at the reporting period.

### C3-5 Provisions

\$ '000	2021 Current	2021 Non-Current	2020 Current	2020 Non-Current
<b>Asset remediation/restoration:</b>				
Asset remediation/restoration (future works)	–	7,972	–	8,013
<b>Sub-total – asset remediation/restoration</b>	<b>–</b>	<b>7,972</b>	<b>–</b>	<b>8,013</b>
<b>Total provisions</b>	<b>–</b>	<b>7,972</b>	<b>–</b>	<b>8,013</b>

### Description of and movements in provisions

\$ '000	Other provisions	
	Asset remediation	Net carrying amount
<b>2021</b>		
At beginning of year	8,013	8,013
Unwinding of discount	29	29
Other	(70)	(70)
Total other provisions at end of year	7,972	7,972
<b>2020</b>		
At beginning of year	7,709	7,709
Unwinding of discount	67	67
Other	237	237
Total other provisions at end of year	8,013	8,013

### Nature and purpose of provisions

#### Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the Council tip and quarry.

#### Accounting policy

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.

#### Asset remediation – 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.

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### C3-5 Provisions (continued)

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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.

## C4 Reserves

### C4-1 Nature and purpose of reserves

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#### **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.

**D Council structure****D1 Results by fund**

General fund refers to all Council activities other than water and sewer. All amounts disclosed in this note are gross i.e. inclusive of 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.

**D1-1 Income Statement by fund**

<b>\$ '000</b>	<b>General 2021</b>	<b>Water 2021</b>	<b>Sewer 2021</b>
<b>Income from continuing operations</b>			
Rates and annual charges	34,396	2,544	15,587
User charges and fees	18,448	7,861	2,603
Interest and investment revenue	482	51	124
Other revenues	1,847	—	—
Grants and contributions provided for operating purposes	7,843	75	72
Grants and contributions provided for capital purposes	20,432	743	2,229
Other income	918	—	—
<b>Total income from continuing operations</b>	<b>84,366</b>	<b>11,274</b>	<b>20,615</b>
<b>Expenses from continuing operations</b>			
Employee benefits and on-costs	25,535	1,246	3,049
Materials and services	35,474	3,389	7,743
Borrowing costs	1,021	—	2,054
Depreciation, amortisation and impairment of non-financial assets	13,020	1,439	3,070
Other expenses	(2,185)	4,480	—
Net losses from the disposal of assets	6,531	335	585
Share of interests in joint ventures and associates using the equity method	64	—	—
<b>Total expenses from continuing operations</b>	<b>79,460</b>	<b>10,889</b>	<b>16,501</b>
<b>Operating result from continuing operations</b>	<b>4,906</b>	<b>385</b>	<b>4,114</b>
<b>Net operating result for the year</b>	<b>4,906</b>	<b>385</b>	<b>4,114</b>
<b>Net operating result attributable to each council fund</b>	<b>4,906</b>	<b>385</b>	<b>4,114</b>
<b>Net operating result for the year before grants and contributions provided for capital purposes</b>	<b>(15,526)</b>	<b>(358)</b>	<b>1,885</b>

**D1-2 Statement of Financial Position by fund**

<b>\$ '000</b>	<b>General 2021</b>	<b>Water 2021</b>	<b>Sewer 2021</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	41,368	—	—
Investments	(2,119)	11,437	13,221
Receivables	5,126	2,459	2,106
Inventories	508	—	—
Contract assets and contract cost assets	2,687	—	—
Other	17	—	—
<b>Total current assets</b>	<b>47,587</b>	<b>13,896</b>	<b>15,327</b>
<b>Non-current assets</b>			
Investments	8,566	—	—
Receivables	649	—	—
Infrastructure, property, plant and equipment	857,268	81,161	155,753
Investments accounted for using the equity method	1,142	—	—
<b>Total non-current assets</b>	<b>867,625</b>	<b>81,161</b>	<b>155,753</b>
<b>TOTAL ASSETS</b>	<b>915,212</b>	<b>95,057</b>	<b>171,080</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables	13,990	—	120
Contract liabilities	6,274	—	—
Borrowings	1,288	—	2,501
Employee benefit provision	6,555	—	—
<b>Total current liabilities</b>	<b>28,107</b>	<b>—</b>	<b>2,621</b>
<b>Non-current liabilities</b>			
Borrowings	21,570	—	35,699
Employee benefit provision	665	—	—
Provisions	7,972	—	—
<b>Total non-current liabilities</b>	<b>30,207</b>	<b>—</b>	<b>35,699</b>
<b>TOTAL LIABILITIES</b>	<b>58,314</b>	<b>—</b>	<b>38,320</b>
<b>Net assets</b>	<b>856,898</b>	<b>95,057</b>	<b>132,760</b>
<b>EQUITY</b>			
Accumulated surplus	490,114	43,297	98,954
Revaluation reserves	366,784	51,760	33,806
<b>Council equity interest</b>	<b>856,898</b>	<b>95,057</b>	<b>132,760</b>
<b>Total equity</b>	<b>856,898</b>	<b>95,057</b>	<b>132,760</b>

## D2 Interests in other entities

\$ '000	Council's share of net assets	
	2021	2020
<b>Council's share of net assets</b>		
<b>Net share of interests in joint ventures and associates using the equity method – assets</b>		
Associates	1,142	1,206
<b>Total net share of interests in joint ventures and associates using the equity method – assets</b>	<b>1,142</b>	<b>1,206</b>
<b>Total Council's share of net assets</b>	<b>1,142</b>	<b>1,206</b>

### Interests in 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	2021	2020
<b>Individually immaterial associates</b>		
<b>Aggregate carrying amount of individually immaterial associates</b>	1,142	1,206
<b>Aggregate amounts of Council's share of individually immaterial:</b>		
Profit/(loss) from continuing operations	(64)	53
<b>Total comprehensive income – individually immaterial associates</b>	<b>(64)</b>	<b>53</b>

## E Risks and accounting uncertainties

### E1-1 Risks relating to financial instruments held

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 2021	Carrying value 2020	Fair value 2021	Fair value 2020
<b>Financial assets</b>				
<b>Measured at amortised cost</b>				
Cash and cash equivalents	41,368	37,327	37,327	37,327
Receivables	10,340	9,674	9,578	12,474
Investments				
– Debt securities at amortised cost	31,105	39,235	39,105	39,235
<b>Total financial assets</b>	<b>82,813</b>	<b>86,236</b>	<b>86,010</b>	<b>89,036</b>
<b>Financial liabilities</b>				
Payables	14,110	13,067	14,110	13,067
Loans/advances	61,058	62,835	65,429	64,841
<b>Total financial liabilities</b>	<b>75,168</b>	<b>75,902</b>	<b>79,539</b>	<b>77,908</b>

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.
- 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.

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## **E1-1 Risks relating to financial instruments held (continued)**

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 – interest rate and price risk**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
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.		
Impact of a 1% movement in interest rates		
– Equity / Income Statement	<b>725</b>	765
Impact of a 10% movement in price of investments		
– Equity / Income Statement	<b>3,910</b>	4

### **(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.

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**

<b>\$ '000</b>	<b>Not yet overdue</b>	<b>&lt; 1 year overdue</b>	<b>1 - 2 years overdue</b>	<b>2 - 5 years overdue</b>	<b>&gt; 5 years overdue</b>	<b>Total</b>
<b>2021</b>						
Gross carrying amount	3,285	300	48	58	822	4,513
<b>2020</b>						
Gross carrying amount	2,844	29	47	56	266	3,242

#### **Receivables - non-rates and annual charges and contract assets**

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.

<b>\$ '000</b>	<b>Not yet overdue</b>	<b>0 - 30 days overdue</b>	<b>31 - 60 days overdue</b>	<b>61 - 90 days overdue</b>	<b>&gt; 91 days overdue</b>	<b>Total</b>
<b>2021</b>						
Gross carrying amount	3,478	1,209	1,115	52	12	5,866

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**E1-1 Risks relating to financial instruments held (continued)**

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
<b>Expected loss rate (%)</b>	<b>0.22%</b>	<b>4.51%</b>	<b>(0.06)%</b>	<b>1.67%</b>	<b>1.91%</b>	<b>1.07%</b>
<b>ECL provision</b>	<b>8</b>	<b>55</b>	<b>(1)</b>	<b>1</b>	<b>–</b>	<b>63</b>
<b>2020</b>						
Gross carrying amount	4,196	1,271	583	25	387	6,462
Expected loss rate (%)	0.43%	2.64%	4.40%	8.04%	6.25%	1.60%
<b>ECL provision</b>	<b>18</b>	<b>34</b>	<b>26</b>	<b>2</b>	<b>24</b>	<b>104</b>

**(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.

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
<b>2021</b>							
Trade/other payables	0.00%	4,323	9,118	–	–	13,441	13,441
Loans and advances	4.86%	–	6,694	27,650	45,949	80,293	61,058
<b>Total financial liabilities</b>		<b>4,323</b>	<b>15,812</b>	<b>27,650</b>	<b>45,949</b>	<b>93,734</b>	<b>74,499</b>
<b>2020</b>							
Trade/other payables	0.00%	4,130	8,449	–	–	12,579	12,579
Loans and advances	4.96%	–	6,583	29,191	51,661	87,435	62,835
<b>Total financial liabilities</b>		<b>4,130</b>	<b>15,032</b>	<b>29,191</b>	<b>51,661</b>	<b>100,014</b>	<b>75,414</b>

## E2-1 Fair value measurement

The Council measures the following asset and liability classes at fair value on a recurring basis:

- Infrastructure, property, plant and equipment
- Financial assets

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).

Fair value measurement hierarchy							
\$ '000	Notes	Level 2 Significant observable inputs		Level 3 Significant unobservable inputs		Total	
		2021	2020	2021	2020	2021	2020
<b>Infrastructure, property, plant and equipment</b>	C1-7						
Plant and equipment		–	–	4,642	4,112	4,642	4,112
Office equipment		–	–	58	70	58	70
Furniture and fittings		–	–	31	45	31	45
Operational land		161,973	87,497	–	–	161,973	87,497
Community land		–	–	105,078	161,314	105,078	161,314
Crown Land		–	–	56,236	–	56,236	–
Land under roads (Post 30/6/08)		–	–	409	363	409	363
Land improvements – non-depreciable		–	–	–	–	–	–
Land improvements – depreciable		–	–	3,072	3,222	3,072	3,222
Buildings specialised		–	–	73,670	70,382	73,670	70,382
Other structures		–	–	1,309	2,008	1,309	2,008
Roads		–	–	217,736	200,306	217,736	200,306
Bridges		–	–	47,994	43,868	47,994	43,868
Footpaths		–	–	9,314	8,187	9,314	8,187
Bulk earthworks		–	–	38,207	35,790	38,207	35,790
Stormwater drainage		–	–	138,169	134,028	138,169	134,028
Water supply network		–	–	69,254	68,935	69,254	68,935
Sewerage network		–	–	117,623	114,712	117,623	114,712
Swimming pools		–	–	2,331	2,023	2,331	2,023
Other open space and recreational assets		–	–	12,664	11,589	12,664	11,589
Other assets		–	–	869	993	869	993
Tip assets		–	–	11,097	10,204	11,097	10,204
Quarry assets		–	–	2,915	2,038	2,915	2,038
<b>Total infrastructure, property, plant and equipment</b>		<b>161,973</b>	<b>87,497</b>	<b>912,678</b>	<b>874,189</b>	<b>1,074,651</b>	<b>961,686</b>

## Valuation techniques

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:

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**E2-1 Fair value measurement (continued)****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.

**Infrastructure, property, plant and equipment (IPPE)****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 Assetic, an external valuer utilised by Council at 30 June 2021. The report provided by Assetic stated that the valuation was undertaken in accordance with specific accounting standards AASB13 Fair Value Measurement and AASB116 Property Plant and Equipment.

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 3** inputs are unobservable inputs for the asset or liability

Unobservable inputs are to be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

There were no assets valued where it was assumed that the highest and best use was other than its current use and all assets have been valued at 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 2021. 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. 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 Assetic at 30 June 2021 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 Assetic 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 consumption, dimensions and asset components. Some of these inputs are unobservable and as such this asset class is classified as Level 3.

**Stormwater drainage**

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**E2-1 Fair value measurement (continued)**

Valuations for these asset classes were undertaken by Assetic 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 2021.

**Other open space and recreational assets.**

This asset class was valued by Assetic as at 30 June 2021. 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.

**Fair value measurements using significant unobservable inputs (level 3)****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 (30/6/21) 2021	Valuation technique/s	Unobservable inputs
<b>Infrastructure, property, plant and equipment</b>			
Plant, Equipment, Furniture, Fittings and Office Equipment	4,732	Cost used to approximate fair value	Asset Condition, remaining useful lives
Operational Land	161,973	Assetic Valuation	Land Value, land area
Community Land	105,078	Land values obtained from the NSW Valuer General	Land Value, land area
Crown Land	56,236	Land values obtained from the NSW Valuer General	Land Value, land area
Land Under Roads	409	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	3,072	Cost used to approximate fair value	Asset Condition, remaining useful lives
Buildings	73,670	Assetic valuation	Condition, remaining lives, valuers individual knowledge and skills.
Other Structures	1,309	Cost used to approximate fair value	Asset Condition, remaining useful lives
Roads, Bridges & Footpaths	275,043	Assetic Report - Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Stormwater Drainage	138,169	Assetic Report - Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Bulk Earthworks	38,207	Assetic Report - Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.

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# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### E2-1 Fair value measurement (continued)

\$ '000	Fair value (30/6/21) 2021	Valuation technique/s	Unobservable inputs
Water	69,254	Independent valuation using depreciated replacement cost. Indexation applied annually since comprehensive revaluation	Condition, remaining lives, valuers individual knowledge and skills.
Sewer	117,623	Independent valuation using depreciated replacement cost. Indexation applied annually since comprehensive revaluation	Condition, remaining lives, valuers individual knowledge and skills.
Swimming Pools	2,331	Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Other Open Space & Recreation	12,644	Independent valuation using depreciated replacement cost	Condition, remaining lives, valuers individual knowledge and skills.
Other Assets	869	Cost used to approximate fair value	Asset Condition, remaining useful lives
Tip Assets	11,097	Cost used to approximate fair value	Asset Condition, remaining useful lives
Quarry Assets	2,915	Cost used to approximate fair value	Asset Condition, remaining useful lives

A reconciliation of the movements in recurring fair value measurements allocated to Level 3 of the hierarchy is provided below:

\$ '000	Plant and equipment		Office equipment		Furniture and fittings		Community Land	
	2021	2020	2021	2020	2021	2020	2021	2020
Opening balance	4,111	3,907	71	105	46	61	161,314	124,304
Total gains or losses for the period								
Other movements								
Purchases (GBV)	1,890	1,563	-	-	-	-	-	364
Disposals (WDV)	(270)	(274)	-	-	-	-	-	-
Depreciation and impairment	(1,080)	(1,085)	(12)	(34)	(14)	(15)	-	-
WIP Transfers	-	-	-	-	-	-	-	-
Adjustments & Transfers	(10)	-	-	-	-	-	-	-
Reval Equity Movements	-	-	-	-	-	-	-	36,646
Closing balance	4,641	4,111	59	71	32	46	161,314	161,314

\$ '000	Land under Roads (post 30/6/08)		Land improv'mnt depreciable		Building specialised		Other structures	
	2021	2020	2021	2020	2021	2020	2021	2020
Opening balance	362	260	3,223	3,404	70,383	71,206	2,008	1,877
Total gains or losses for the period								
Other movements								
Purchases (GBV)	44	7	-	-	925	339	-	152
Disposals (WDV)	-	-	-	-	(1,230)	(13)	(100)	-
Depreciation and impairment	-	-	(150)	(181)	(1,280)	(1,271)	(32)	(38)
WIP Transfers	-	-	-	-	194	122	-	17
Adjustments & Transfers	-	-	-	-	(42)	-	-	-
Reval Equity Movements	1	95	-	-	4,722	-	(567)	-
Closing balance	407	362	3,073	3,223	73,672	70,383	1,309	2,008

\$ '000	Roads		Bridges		Footpaths		Bulk earthworks	
	2021	2020	2021	2020	2021	2020	2021	2020
Opening balance	200,305	193,201	43,867	33,041	8,187	6,687	35,791	32,415
Total gains or losses for the period								
Other movements								
Purchases (GBV)	13,731	6,232	3,869	1,701	513	372	1,166	224

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# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### E2-1 Fair value measurement (continued)

\$ '000	Roads		Bridges		Footpaths		Bulk earthworks	
	2021	2020	2021	2020	2021	2020	2021	2020
Disposals (WDV)	(924)	(93)	(1,921)	—	(92)	(26)	(60)	(272)
Depreciation and impairment	(6,443)	(5,365)	(418)	(678)	(205)	(169)	—	—
WIP Transfers	11,066	616	2,595	793	911	57	1,310	21
Adjustments & Transfers	—	(434)	—	—	—	568	—	—
Reval Equity Movements	—	6,148	—	9,010	—	698	—	3,403
<b>Closing balance</b>	<b>217,735</b>	<b>200,305</b>	<b>47,992</b>	<b>43,867</b>	<b>9,314</b>	<b>8,187</b>	<b>38,207</b>	<b>35,791</b>

\$ '000	Stormwater drainage		Water supply network		Sewerage network		Swimming pools	
	2021	2020	2021	2020	2021	2020	2021	2020
<b>Opening balance</b>	<b>134,025</b>	<b>75,966</b>	<b>68,934</b>	<b>69,250</b>	<b>114,711</b>	<b>115,289</b>	<b>2,023</b>	<b>2,079</b>
<b>Total gains or losses for the period</b>								
<b>Other movements</b>								
Purchases (GBV)	3,014	814	1,225	1,536	3,482	1,447	—	—
Disposals (WDV)	(146)	(111)	(335)	(998)	(579)	(192)	—	—
Depreciation and impairment	(1,870)	(729)	(1,429)	(1,495)	(3,039)	(3,113)	(56)	(56)
WIP Transfers	3,143	73	227	—	1,984	205	—	—
Adjustments & Transfers	—	20	—	—	—	—	—	—
Reval Equity Movements	—	57,992	631	641	1,064	1,075	364	—
<b>Closing balance</b>	<b>138,166</b>	<b>134,025</b>	<b>69,253</b>	<b>68,934</b>	<b>117,623</b>	<b>114,711</b>	<b>2,331</b>	<b>2,023</b>

\$ '000	Other open space and recreation		Other		Tip assets		Quarry assets	
	2021	2020	2021	2020	2021	2020	2021	2020
<b>Opening balance</b>	<b>11,589</b>	<b>10,198</b>	<b>994</b>	<b>1,646</b>	<b>10,204</b>	<b>12,101</b>	<b>2,037</b>	<b>1,955</b>
<b>Total gains or losses for the period</b>								
<b>Other movements</b>								
Transfers from/(to) another asset class	—	—	—	—	—	(253)	—	253
Purchases (GBV)	407	987	—	—	—	46	—	—
Disposals (WDV)	(417)	(287)	—	(525)	—	—	—	—
Depreciation and impairment	(560)	(528)	(125)	(127)	(501)	(513)	(285)	(285)
WIP Transfers	546	1,374	—	—	—	140	—	—
Adjustments & Transfers	42	(155)	—	—	—	(1,317)	177	114
Reval Equity Movements	1,056	—	—	—	1,395	—	985	—
<b>Closing balance</b>	<b>12,663</b>	<b>11,589</b>	<b>869</b>	<b>994</b>	<b>11,098</b>	<b>10,204</b>	<b>2,914</b>	<b>2,037</b>

\$ '000	Total	
	2021	2020
<b>Opening balance</b>	<b>874,185</b>	<b>758,952</b>
Purchases (GBV)	30,266	15,784
Disposals (WDV)	(6,074)	(2,791)
Depreciation and impairment	(17,499)	(15,682)
WIP Transfers	21,976	3,418
Adjustments & Transfers	167	(1,204)
Reval Equity Movements	9,651	115,708
<b>Closing balance</b>	<b>912,672</b>	<b>874,185</b>

Information relating to the transfers into and out of the level 3 fair valuation hierarchy includes:

For 2021 there are no transfers into or out of the level 3 valuation hierarchy.

### Highest and best use

All of Council's non-financial assets are considered as being utilised for their highest and best use.

## E3-1 Contingencies

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.
- 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; Nil for 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 for the year ended 30 June 2021 (increasing to 7.5% in line with Superannuation Guarantee) to those 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.

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**E3-1 Contingencies (continued)**

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 2021 was \$273,984.64. The last valuation of the Scheme was performed by Mr Richard Bayfield, FIAA, as at 30 June 2020.

The amount of additional contributions included in the total employer contribution advised above is \$164,400. Council's expected contribution to the plan for the next annual reporting period is \$256,743.60.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2021 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	2,620.5	
Past Service Liabilities	2,445.6	107.2%
Vested Benefits	2,468.7	106.2%

\* 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 0.41% as at 30 June 2021.

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.

Please note that the estimated employer reserves financial position above is a preliminary calculation, and once all the relevant information has been received by the Funds Actuary, the final end of year review, which will be a triennial actuarial investigation will be completed by December 2021.

**(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.

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**E3-1 Contingencies (continued)****(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.

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 and markets.

**(iv) Former Landfill Brunswick Heads**

Council has investigated the environmental impact of a former landfill at Brunswick Heads in association with the NSW Department of Lands and the Environment Protection Agency. The site is now being monitored with the prospect of further remediation small but not eliminated.

**F People and relationships****F1 Related party disclosures****F1-1 Key management personnel (KMP)**

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:

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
<b>Compensation:</b>		
Short-term benefits	1,152	1,133
Post-employment benefits	83	81
<b>Total</b>	<b>1,235</b>	<b>1,214</b>

**F1-2 Councillor and Mayoral fees and associated expenses**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
The aggregate amount of Councillor and Mayoral fees and associated expenses included in materials and services expenses in the Income Statement are:		
Mayoral fee	<b>44</b>	44
Councillors' fees	<b>179</b>	183
Other Councillors' expenses (including Mayor)	<b>75</b>	61
<b>Total</b>	<b>298</b>	<b>288</b>

**F2 Other relationships**

**F2-1 Audit fees**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms		
<b>Auditors of the Council - NSW Auditor-General:</b>		
<b>(i) Audit and other assurance services</b>		
Audit of financial statements	<b>113</b>	86
<b>Remuneration for audit and other assurance services</b>	<b>113</b>	86
<b>Total Auditor-General remuneration</b>	<b>113</b>	86
<b>Non NSW Auditor-General audit firms</b>		
<b>(ii) Non-assurance services</b>		
Internal audit services	<b>52</b>	89
<b>Remuneration for non-assurance services</b>	<b>52</b>	89
<b>Total remuneration of non NSW Auditor-General audit firms</b>	<b>52</b>	89
<b>Total audit fees</b>	<b>165</b>	<b>175</b>

**G Other matters**

**G1-1 Statement of Cash Flows information**

**(a) Reconciliation of net operating result to cash provided from operating activities**

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
<b>Net operating result from Income Statement</b>	<b>9,468</b>	<b>23,778</b>
<b>Adjust for non-cash items:</b>		
Depreciation and amortisation	<b>17,529</b>	15,685
Net losses/(gains) on disposal of assets	<b>7,451</b>	2,389
Non-cash capital grants and contributions	<b>(655)</b>	(9,348)
Adoption of AASB 15/1058	<b>—</b>	(767)
Losses/(gains) recognised on fair value re-measurements through the P&L:		
– Investments classified as 'at fair value' or 'held for trading'	<b>169</b>	(174)
Unwinding of discount rates on reinstatement provisions	<b>29</b>	67
Share of net (profits)/losses of associates/joint ventures using the equity method	<b>—</b>	(53)
<b>+/- Movement in operating assets and liabilities and other cash items:</b>		
Decrease/(increase) in receivables	<b>(685)</b>	1,501
Increase/(decrease) in provision for impairment of receivables	<b>9</b>	2
Decrease/(increase) in inventories	<b>(10)</b>	(103)
Decrease/(increase) in other current assets	<b>—</b>	12
Decrease/(increase) in contract assets	<b>113</b>	(2,800)
Increase/(decrease) in payables	<b>377</b>	2,216
Increase/(decrease) in accrued interest payable	<b>(12)</b>	(77)
Increase/(decrease) in other accrued expenses payable	<b>304</b>	(10)
Increase/(decrease) in other liabilities	<b>374</b>	335
Increase/(decrease) in contract liabilities	<b>4,785</b>	1,489
Increase/(decrease) in provision for employee benefits	<b>444</b>	924
Increase/(decrease) in other provisions	<b>(70)</b>	237
<b>Net cash provided from/(used in) operating activities from the Statement of Cash Flows</b>	<b>39,620</b>	<b>35,303</b>

**(b) Non-cash investing and financing activities**

Crown land devolved	<b>—</b>	<b>—</b>
Developer dedications	<b>655</b>	9,348
<b>Total non-cash investing and financing activities</b>	<b>655</b>	<b>9,348</b>

## G2-1 Commitments

### Capital commitments (exclusive of GST)

\$ '000	2021	2020
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Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:

#### Property, plant and equipment

Plant and equipment	763	—
Roads	1,687	7,933
Water	—	953
Sewer	1,002	—
Parks and Gardens	673	—
Emergency Services	—	—
<b>Total commitments</b>	<b>4,125</b>	<b>8,886</b>

#### These expenditures are payable as follows:

Within the next year	3,625	8,886
Later than 1 year not later than 5 years	500	—
<b>Total payable</b>	<b>4,125</b>	<b>8,886</b>

#### Sources for funding of capital commitments:

Unrestricted general funds	(2)	—
Future grants and contributions	1,187	7,380
Section 7.11 and 64 funds/reserves	502	411
Internally restricted reserves	2,438	1,095
<b>Total sources of funding</b>	<b>4,125</b>	<b>8,886</b>

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### G3 Statement of developer contributions as at 30 June 2021

#### G3-1 Summary of developer contributions

\$ '000	Opening balance at 1 July 2020	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2021	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
Open space	4,378	501	–	37	(763)	–	4,154	–
Community facilities	1,153	231	–	10	(245)	–	1,150	–
Urban roads	3,974	202	–	19	(4,149)	2,300	2,347	–
Rural roads	1,573	417	–	18	–	(1,000)	1,007	–
Cycleways	1,042	160	–	8	(216)	–	994	–
Carparking	1,535	124	–	15	–	(1,300)	375	–
Civic and urban improvements	527	6	–	3	(180)	–	357	–
Shire support services	133	4	–	–	(26)	–	112	–
Administration	422	156	–	4	(150)	–	432	–
Section 7.12 levy	402	261	–	2	(471)	–	194	–
<b>S7.11 contributions – under a plan</b>	<b>15,139</b>	<b>2,062</b>	<b>–</b>	<b>116</b>	<b>(6,200)</b>	<b>–</b>	<b>11,122</b>	<b>–</b>
<b>Total S7.11 and S7.12 revenue under plans</b>	<b>15,139</b>	<b>2,062</b>	<b>–</b>	<b>116</b>	<b>(6,200)</b>	<b>–</b>	<b>11,122</b>	<b>–</b>
S64 contributions	9,601	2,854	–	96	(1,819)	–	10,732	–
<b>Total contributions</b>	<b>24,740</b>	<b>4,916</b>	<b>–</b>	<b>212</b>	<b>(8,019)</b>	<b>–</b>	<b>21,854</b>	<b>–</b>

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.

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### G3-2 Developer contributions by plan

\$ '000	Opening balance at 1 July 2020	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2021	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
CONTRIBUTION PLAN NUMBER 1 – OPEN SPACE								
Byron Bay	327	136	–	1	(318)	–	147	–
Mullumbimby	735	151	–	8	–	–	894	–
Bangalow	266	54	–	3	–	–	323	–
Suffolk Park	999	–	–	5	(427)	–	577	–
Brunswick Heads	50	12	–	–	(18)	–	44	–
Ocean Shores	66	35	–	2	–	–	103	–
Shire Wide	1,900	94	–	18	–	–	2,012	–
Rural North	20	17	–	–	–	–	37	–
Rural South	15	2	–	–	–	–	17	–
Total	4,378	501	–	37	(763)	–	4,154	–
CONTRIBUTION PLAN NUMBER 2 – COMMUNITY FACILITIES								
Byron Bay	(35)	40	–	–	–	–	5	–
Mullumbimby	23	9	–	–	–	–	33	–
Bangalow	205	5	–	2	–	–	212	–
Brunswick Heads	15	1	–	–	–	–	16	–
Ocean Shores	126	23	–	–	(120)	–	29	–
Shire Wide	704	149	–	7	(125)	–	735	–
Rural North	3	2	–	–	–	–	5	–
Rural South	112	2	–	1	–	–	115	–
Total	1,153	231	–	10	(245)	–	1,150	–
CONTRIBUTION PLAN NUMBER 3 – CYCLEWAYS								
Byron Bay	190	32	–	2	–	–	224	–
Mullumbimby	389	91	–	4	(8)	–	476	–
Bangalow	244	13	–	–	(208)	–	49	–
Brunswick Heads	22	3	–	–	–	–	25	–
Ocean Shores	83	8	–	1	–	–	92	–
Shire Wide	–	10	–	–	–	–	10	–
Rural North	15	1	–	–	–	–	16	–
Rural South	99	2	–	1	–	–	102	–
Total	1,042	160	–	8	(216)	–	994	–
CONTRIBUTION PLAN NUMBER 4 – SHIRE SUPPORT SERVICES								
Byron Bay	21	–	–	–	–	–	21	–
Mullumbimby	14	–	–	–	–	–	14	–

continued on next page ...

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# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### G3-2 Developer contributions by plan (continued)

\$ '000	Opening balance at 1 July 2020	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2021	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
Bangalow	4	-	-	-	-	-	4	-
Ocean Shores	6	-	-	-	-	-	6	-
Rural North	27	2	-	-	-	-	29	-
Rural South	18	2	-	-	(26)	-	(6)	-
Shire Rural	42	-	-	-	-	-	43	-
Brunswick Heads	1	-	-	-	-	-	1	-
<b>Total</b>	<b>133</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>(26)</b>	<b>-</b>	<b>112</b>	<b>-</b>
<b>CONTRIBUTION PLAN NUMBER 5 – CARPARKING</b>								
Byron Bay	1,346	-	-	12	-	(1,300)	58	-
Mullumbimby	6	124	-	1	-	-	131	-
Brunswick Heads	183	-	-	2	-	-	186	-
<b>Total</b>	<b>1,535</b>	<b>124</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>(1,300)</b>	<b>375</b>	<b>-</b>
<b>CONTRIBUTION PLAN NUMBER 6 – URBAN ROADS</b>								
Byron Bay	1,907	99	-	-	(4,149)	2,300	157	-
Mullumbimby	541	47	-	5	-	-	593	-
Bangalow	1,286	22	-	12	-	-	1,321	-
Brunswick Heads	190	13	-	2	-	-	205	-
Ocean Shores	49	21	-	-	-	-	70	-
Batson Quarry	1	-	-	-	-	-	1	-
<b>Total</b>	<b>3,974</b>	<b>202</b>	<b>-</b>	<b>19</b>	<b>(4,149)</b>	<b>2,300</b>	<b>2,347</b>	<b>-</b>
<b>CONTRIBUTION PLAN NUMBER 7 – RURAL ROADS</b>								
Shire Rural	26	30	-	-	-	-	56	-
Mudges Quarry	18	-	-	-	-	-	18	-
Leela Quarry	4	-	-	-	-	-	4	-
Myocum Quarry (Council)	20	-	-	-	-	-	20	-
Rural North	(285)	224	-	-	-	-	(62)	-
Rural South	1,790	163	-	18	-	(1,000)	971	-
<b>Total</b>	<b>1,573</b>	<b>417</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>(1,000)</b>	<b>1,007</b>	<b>-</b>
<b>CONTRIBUTION PLAN NUMBER 8 – CIVIC AND URBAN IMPROVEMENTS</b>								
Byron Bay	86	-	-	-	(105)	-	(19)	-
Mullumbimby	100	-	-	1	-	-	101	-
Bangalow	203	-	-	1	(75)	-	129	-

continued on next page ...

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# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### G3-2 Developer contributions by plan (continued)

\$ '000	Opening balance at 1 July 2020	Contributions received during the year		Interest and investment income earned	Amounts expended	Internal borrowings	Held as restricted asset at 30 June 2021	Cumulative balance of internal borrowings (to)/from
		Cash	Non-cash					
Brunswick Heads	3	-	-	-	-	-	3	-
Ocean Shores	135	3	-	1	-	-	140	-
Rural North	(54)	1	-	-	-	-	(53)	-
Rural South	54	2	-	-	-	-	56	-
<b>Total</b>	<b>527</b>	<b>6</b>	<b>-</b>	<b>3</b>	<b>(180)</b>	<b>-</b>	<b>357</b>	<b>-</b>
<b>CONTRIBUTION PLAN NUMBER 9 – ADMINISTRATION</b>								
Shire Wide	422	156	-	4	(150)	-	432	-
<b>Total</b>	<b>422</b>	<b>156</b>	<b>-</b>	<b>4</b>	<b>(150)</b>	<b>-</b>	<b>432</b>	<b>-</b>
<b>CONTRIBUTION PLAN NUMBER 10 – SECTION 7.12 LEVY</b>								
Shire Wide	402	261	-	2	(471)	-	194	-
<b>Total</b>	<b>402</b>	<b>261</b>	<b>-</b>	<b>2</b>	<b>(471)</b>	<b>-</b>	<b>194</b>	<b>-</b>

### G3-3 S64 contributions

#### CONTRIBUTION PLAN NUMBER 11 – WATER SUPPLY SERVICES

Byron, Bang, Burns, O/Shires	692	667	-	17	(308)	-	1,068	-
Mullumbimby	793	-	-	-	-	-	793	-
<b>Total</b>	<b>1,485</b>	<b>667</b>	<b>-</b>	<b>17</b>	<b>(308)</b>	<b>-</b>	<b>1,861</b>	<b>-</b>

#### CONTRIBUTION PLAN NUMBER 12 – SEWERAGE SERVICES

Bangalow	2,450	2,187	-	79	(1,512)	-	3,204	-
Byron Bay	5,667	-	-	-	-	-	5,667	-
<b>Total</b>	<b>8,117</b>	<b>2,187</b>	<b>-</b>	<b>79</b>	<b>(1,512)</b>	<b>-</b>	<b>8,871</b>	<b>-</b>

## G4 Statement of performance measures

### G4-1 Statement of performance measures – consolidated results

\$ '000	Amounts 2021	Indicator 2021	Indicators 2020	Indicators 2019	Benchmark
<b>1. Operating performance ratio</b>					
Total continuing operating revenue excluding capital grants and contributions less operating expenses <sup>1,2</sup>	(6,235)	(6.87)%	(7.08)%	(7.11)%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>	90,757				
<b>2. Own source operating revenue ratio</b>					
Total continuing operating revenue excluding all grants and contributions <sup>1</sup>	82,767	72.50%	65.41%	72.24%	> 60.00%
Total continuing operating revenue <sup>1</sup>	114,161				
<b>3. Unrestricted current ratio</b>					
Current assets less all external restrictions	34,514	2.41x	3.08x	3.65x	> 1.50x
Current liabilities less specific purpose liabilities	14,324				
<b>4. Debt service cover ratio</b>					
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	14,369	2.18x	1.99x	1.86x	> 2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	6,602				
<b>5. Rates and annual charges outstanding percentage</b>					
Rates and annual charges outstanding	4,634	8.33%	7.32%	4.63%	< 10.00%
Rates and annual charges collectable	55,617				
<b>6. Cash expense cover ratio</b>					
Current year's cash and cash equivalents plus all term deposits	63,907	9.36	8.76	11.02	> 3.00
Monthly payments from cash flow of operating and financing activities	6,827	mths	mths	mths	mths

(1) Excludes fair value increments on investment properties, reversal of revaluation decrements, reversal of impairment losses on receivables, net gain on sale of assets and net share of interests in joint ventures and associates using the equity method and includes pensioner rate subsidies

(2) Excludes impairment/revaluation decrements of IPPE, fair value decrements on investment properties, net loss on disposal of assets and net loss on share of interests in joint ventures and associates using the equity method

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 1

Byron Shire Council | Notes to the Financial Statements 30 June 2021

### G4-2 Statement of performance measures by fund

\$ '000	General Indicators <sup>3</sup>		Water Indicators		Sewer Indicators		Benchmark
	2021	2020	2021	2020	2021	2020	
<b>1. Operating performance ratio</b>							
Total continuing operating revenue excluding capital grants and contributions less operating expenses <sup>1,2</sup>	(12.76)%	(11.12)%	(3.13)%	(4.95)%	10.40%	6.08%	> 0.00%
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>							
<b>2. Own source operating revenue ratio</b>							
Total continuing operating revenue excluding capital grants and contributions <sup>1</sup>	65.61%	56.62%	92.74%	94.92%	88.84%	92.57%	> 60.00%
Total continuing operating revenue <sup>1</sup>							
<b>3. Unrestricted current ratio</b>							
Current assets less all external restrictions	2.41x	3.08x	∞	∞	5.85x	3.91x	> 1.50x
Current liabilities less specific purpose liabilities							
<b>4. Debt service cover ratio</b>							
Operating result before capital excluding interest and depreciation/impairment/amortisation <sup>1</sup>	1.80x	3.51x	∞	∞	2.53x	1.19x	> 2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
<b>5. Rates and annual charges outstanding percentage</b>							
Rates and annual charges outstanding	8.48%	7.61%	8.27%	6.55%	7.99%	6.61%	< 10.00%
Rates and annual charges collectable							
<b>6. Cash expense cover ratio</b>							
Current year's cash and cash equivalents plus all term deposits	9.36 mths	11.68 mths	∞	0.00	∞	0.00	> 3.00 mths
Monthly payments from cash flow of operating and financing activities							

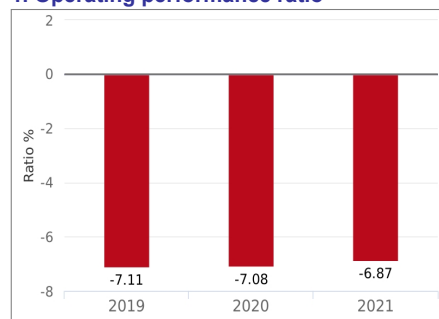
(1) - (2) Refer to Notes at Note G6-1 above.

(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

### H Additional Council disclosures (unaudited)

#### H1-1 Statement of performance measures – consolidated results (graphs)

##### 1. Operating performance ratio



##### Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

##### Commentary on 2020/21 result

2020/21 ratio (6.87)%

Whilst not achieving this benchmark, Council's result has slightly improved which is pleasing considering current ongoing COVID-19 impacts. Council though does need to address its operating performance. The result would have been further enhanced had Council been able to recognise revenues for two Natural Disaster Claims recovering \$1.8million in costs incurred during the financial year but the claims are not approved at financial year end.

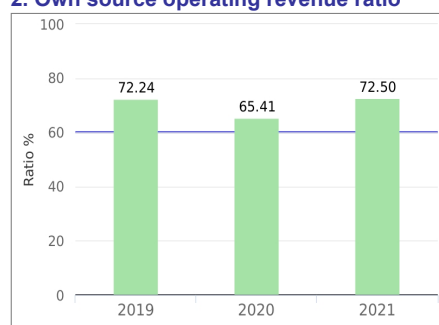
Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

Ratio is outside benchmark

##### 2. Own source operating revenue ratio



##### Purpose of own source operating revenue ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

##### Commentary on 2020/21 result

2020/21 ratio 72.50%

Council has managed to remain above the required benchmark which is a good outcome considering the ongoing impacts of COVID-19.

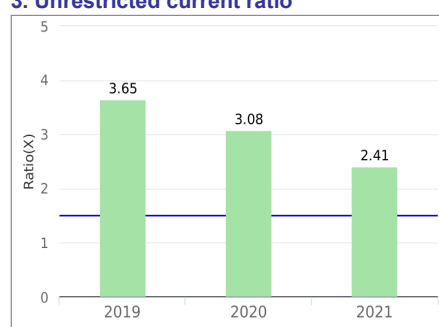
Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

Ratio is outside benchmark

##### 3. Unrestricted current ratio



##### Purpose of unrestricted current ratio

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

##### Commentary on 2020/21 result

2020/21 ratio 2.41x

Whilst a decline from the previous year, given the current environment Council is still exceeding the required benchmark significantly that continues to demonstrate Council can meet its short term obligations.

Benchmark: — > 1.50x

Source of benchmark: Code of Accounting Practice and Financial Reporting

Ratio achieves benchmark

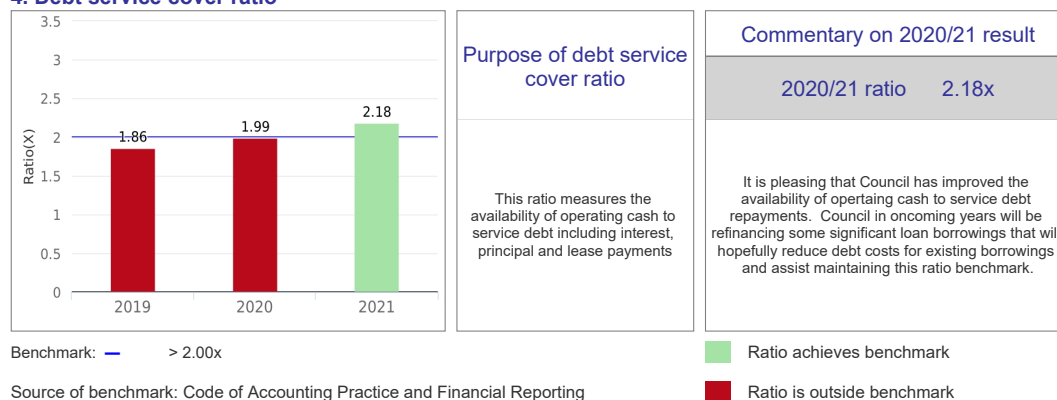
Ratio is outside benchmark

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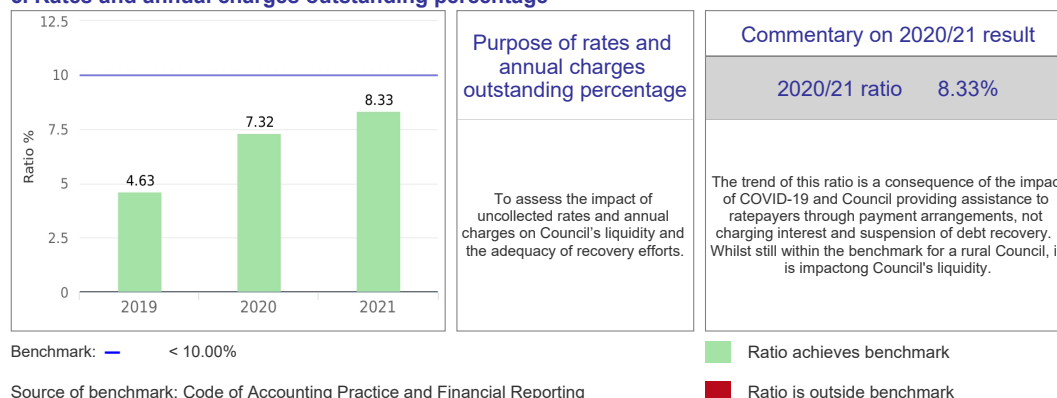
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### H1-1 Statement of performance measures – consolidated results (graphs) (continued)

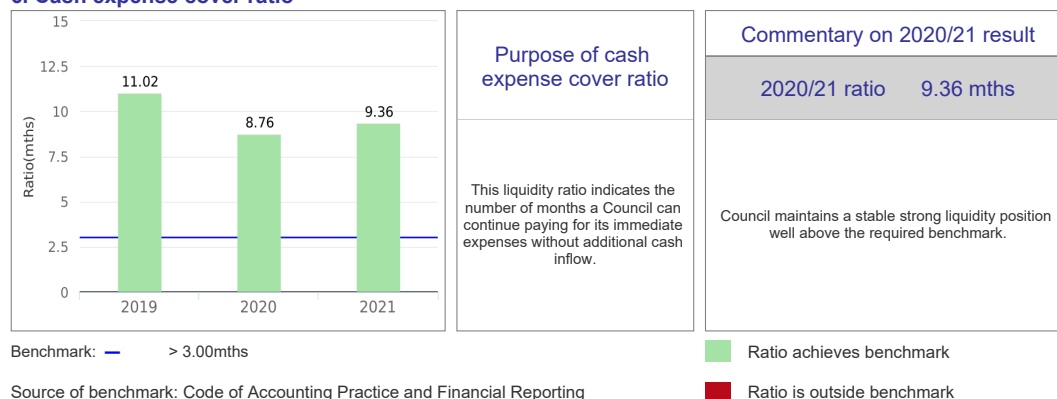
#### 4. Debt service cover ratio



#### 5. Rates and annual charges outstanding percentage



#### 6. Cash expense cover ratio



## H1-2 Council information and contact details

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**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](http://www.byron.nsw.gov.au)

**Email:** [council@byron.nsw.gov.au](mailto:council@byron.nsw.gov.au)

**Officers****General Manager**

Mark Arnold

**Responsible Accounting Officer**

James Brickley

**Auditors**

Audit Office of New South Wales  
Level 19, Darling Park Tower 2  
201 Sussex Street  
SYDNEY NSW 2000

**Elected members****Mayor**

Michael Lyon

**Councillors**

Sarah Ndiaye  
Michael Lyon  
Basil Cameron  
Cate Coorey  
Jan Hackett  
Jeanette Martin  
Paul Spooner  
Alan Hunter

**Other information**

**ABN:** 14 472 131 473

## Byron Shire Council

### SPECIAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2021

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*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

for the year ended 30 June 2021

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Income Statement of Holiday Parks Business Activity	6
Statement of Financial Position of Water Supply Business Activity	7
Statement of Financial Position of Sewerage Business Activity	8
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<b>Auditor's Report on Special Purpose Financial Statements</b>	<b>13</b>

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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**

for the year ended 30 June 2021

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**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 28 October 2021.**

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**Michael Lyon**  
**Mayor**  
**28 October 2021**

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**Sarah Ndiaye**  
**Deputy Mayor**  
**28 October 2021**

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**Mark Arnold**  
**General Manager**  
**28 October 2021**

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**James Brickley**  
**Responsible Accounting Officer**  
**28 October 2021**

Byron Shire Council | Income Statement of Water Supply Business Activity | For the year ended 30 June 2021

## Byron Shire Council

## Income Statement of Water Supply Business Activity

for the year ended 30 June 2021

\$ '000	2021	2020
<b>Income from continuing operations</b>		
Access charges	2,544	2,474
User charges	7,611	6,924
Fees	250	304
Interest	51	58
Grants and contributions provided for non-capital purposes	75	77
<b>Total income from continuing operations</b>	<b>10,531</b>	<b>9,837</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	1,246	1,045
Materials and services	3,361	3,486
Depreciation, amortisation and impairment	1,439	1,504
Water purchase charges	4,480	4,278
Loss on Sale of Assets	335	998
Calculated taxation equivalents	168	86
Other expenses	—	11
<b>Total expenses from continuing operations</b>	<b>11,029</b>	<b>11,408</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>(498)</b>	<b>(1,571)</b>
Grants and contributions provided for capital purposes	743	445
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>245</b>	<b>(1,126)</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>245</b>	<b>(1,126)</b>
<b>Surplus (deficit) after tax</b>	<b>245</b>	<b>(1,126)</b>
<b>Plus accumulated surplus</b>	<b>42,912</b>	<b>43,979</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	168	86
<b>Less:</b>		
– Tax equivalent dividend paid	(28)	(28)
<b>Closing accumulated surplus</b>	<b>43,297</b>	<b>42,911</b>
<b>Return on capital %</b>	<b>(0.6)%</b>	<b>(2.0)%</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	245	(1,126)
Less: capital grants and contributions (excluding developer contributions)	(743)	(445)
<b>Surplus for dividend calculation purposes</b>	<b>—</b>	<b>—</b>
<b>Potential dividend calculated from surplus</b>	<b>—</b>	<b>—</b>

# BYRON SHIRE COUNCIL

## STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

## 4.3 - ATTACHMENT 2

Byron Shire Council | Income Statement of Sewerage Business Activity | For the year ended 30 June 2021

### Byron Shire Council

### Income Statement of Sewerage Business Activity

for the year ended 30 June 2021

\$ '000	2021	2020
<b>Income from continuing operations</b>		
Access charges	15,587	11,083
User charges	1,933	4,670
Liquid trade waste charges	349	256
Fees	321	310
Interest	124	211
Grants and contributions provided for non-capital purposes	72	77
<b>Total income from continuing operations</b>	<b>18,386</b>	<b>16,607</b>
<b>Expenses from continuing operations</b>		
Employee benefits and on-costs	3,049	2,928
Borrowing costs	2,054	2,591
Materials and services	7,715	6,893
Depreciation, amortisation and impairment	3,070	3,143
Loss on sale of assets	585	192
Calculated taxation equivalents	531	225
Debt guarantee fee (if applicable)	1,307	974
Other expenses	—	42
<b>Total expenses from continuing operations</b>	<b>18,311</b>	<b>16,988</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>75</b>	<b>(381)</b>
Grants and contributions provided for capital purposes	2,229	1,249
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>2,304</b>	<b>868</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>2,304</b>	<b>868</b>
Less: corporate taxation equivalent [based on result before capital]	(20)	—
<b>Surplus (deficit) after tax</b>	<b>2,284</b>	<b>868</b>
<b>Plus accumulated surplus</b>	<b>94,840</b>	<b>92,802</b>
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	531	225
– Debt guarantee fees	1,307	974
– Corporate taxation equivalent	20	—
<b>Less:</b>		
– Tax equivalent dividend paid	(28)	(28)
<b>Closing accumulated surplus</b>	<b>98,954</b>	<b>94,841</b>
<b>Return on capital %</b>	<b>1.4%</b>	<b>1.6%</b>
<b>Calculation of dividend payable:</b>		
Surplus (deficit) after tax	2,285	868
Less: capital grants and contributions (excluding developer contributions)	(2,229)	(1,249)
<b>Surplus for dividend calculation purposes</b>	<b>56</b>	<b>—</b>
<b>Potential dividend calculated from surplus</b>	<b>28</b>	<b>—</b>

Byron Shire Council | Income Statement of Holiday Parks Business Activity | For the year ended 30 June 2021

**Byron Shire Council**

**Income Statement of Holiday Parks Business Activity**

for the year ended 30 June 2021

<b>\$ '000</b>	<b>2021 Category 1</b>	<b>2020 Category 1</b>
<b>Income from continuing operations</b>		
Fees	<b>4,055</b>	3,541
<b>Total income from continuing operations</b>	<b>4,055</b>	<b>3,541</b>
<b>Expenses from continuing operations</b>		
Calculated taxation equivalents	<b>528</b>	361
Depreciation, amortisation and impairment	<b>153</b>	157
Loss on sale of assets	<b>121</b>	–
Materials and services	<b>1,977</b>	1,653
Other expenses	<b>568</b>	981
<b>Total expenses from continuing operations</b>	<b>3,347</b>	<b>3,152</b>
<b>Surplus (deficit) from continuing operations before capital amounts</b>	<b>708</b>	<b>389</b>
<b>Surplus (deficit) from continuing operations after capital amounts</b>	<b>708</b>	<b>389</b>
<b>Surplus (deficit) from all operations before tax</b>	<b>708</b>	<b>389</b>
Less: corporate taxation equivalent [based on result before capital]	<b>(184)</b>	(107)
<b>Surplus (deficit) after tax</b>	<b>524</b>	<b>282</b>
<b>Plus accumulated surplus</b>	<b>8,533</b>	9,685
<b>Plus adjustments for amounts unpaid:</b>		
– Taxation equivalent payments	<b>528</b>	361
– Corporate taxation equivalent	<b>184</b>	107
<b>Less:</b>		
– TER dividend paid	<b>(1,206)</b>	(906)
– Dividend paid	<b>(705)</b>	(996)
<b>Closing accumulated surplus</b>	<b>7,858</b>	<b>8,533</b>
<b>Return on capital %</b>	<b>1.8%</b>	1.4%

Byron Shire Council | Statement of Financial Position of Water Supply Business Activity | For the year ended 30 June 2021

**Byron Shire Council**

**Statement of Financial Position of Water Supply Business Activity**

as at 30 June 2021

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Investments	11,437	10,744
Receivables	2,459	2,000
<b>Total current assets</b>	<b>13,896</b>	<b>12,744</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	81,161	76,876
<b>Total non-current assets</b>	<b>81,161</b>	<b>76,876</b>
<b>Total assets</b>	<b>95,057</b>	<b>89,620</b>
<b>Net assets</b>	<b>95,057</b>	<b>89,620</b>
<b>EQUITY</b>		
Accumulated surplus	43,297	42,912
Revaluation reserves	51,760	46,708
<b>Total equity</b>	<b>95,057</b>	<b>89,620</b>

Byron Shire Council | Statement of Financial Position of Sewerage Business Activity | For the year ended 30 June 2021

**Byron Shire Council**

**Statement of Financial Position of Sewerage Business Activity**

as at 30 June 2021

<b>\$ '000</b>	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Investments	13,221	15,897
Receivables	2,106	2,007
<b>Total current assets</b>	<b>15,327</b>	<b>17,904</b>
<b>Non-current assets</b>		
Infrastructure, property, plant and equipment	155,753	134,939
<b>Total non-current assets</b>	<b>155,753</b>	<b>134,939</b>
<b>Total assets</b>	<b>171,080</b>	<b>152,843</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	120	128
Borrowings	2,501	2,372
<b>Total current liabilities</b>	<b>2,621</b>	<b>2,500</b>
<b>Non-current liabilities</b>		
Borrowings	35,699	38,200
<b>Total non-current liabilities</b>	<b>35,699</b>	<b>38,200</b>
<b>Total liabilities</b>	<b>38,320</b>	<b>40,700</b>
<b>Net assets</b>	<b>132,760</b>	<b>112,143</b>
<b>EQUITY</b>		
Accumulated surplus	98,954	94,840
Revaluation reserves	33,806	17,303
<b>Total equity</b>	<b>132,760</b>	<b>112,143</b>

Byron Shire Council | Statement of Financial Position of Holiday Parks Business Activity | For the year ended 30 June 2021

**Byron Shire Council**

**Statement of Financial Position of Holiday Parks Business Activity**

as at 30 June 2021

<b>\$ '000</b>	<b>2021 Category 1</b>	<b>2020 Category 1</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Investments	2,617	3,089
Infrastructure, property, plant and equipment	39,119	27,586
<b>Total non-current assets</b>	<b>41,736</b>	<b>30,675</b>
<b>Total assets</b>	<b>41,736</b>	<b>30,675</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	741	564
<b>Total current liabilities</b>	<b>741</b>	<b>564</b>
<b>Total liabilities</b>	<b>741</b>	<b>564</b>
<b>Net assets</b>	<b>40,995</b>	<b>30,111</b>
<b>EQUITY</b>		
Accumulated surplus	7,858	8,534
Revaluation reserves	33,137	21,577
<b>Total equity</b>	<b>40,995</b>	<b>30,111</b>

## Note – 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.

The Statement of Finance Position includes notional assets/liabilities receivable from/payable to Council's General Fund. These balances reflect the notional inter-entity funding arrangement with the declared business activities.

### 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

### 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.

continued on next page ...

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**Note – Significant Accounting Policies (continued)**

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 – **26%** (19/20 27.5%)

Land tax – the first \$755,000 of combined land values attracts **0%**. For the combined land values in excess of \$755,000 up to \$4,616,000 the rate is **1.6% + \$100**. For the remaining combined land value that exceeds \$4,616,000 a premium marginal rate of **2.0%** applies.

Payroll tax – **4.85%** on the value of taxable salaries and wages in excess of \$1,200,000.

In accordance with the Department of Planning, Industry & Environment (DoPIE) – Best Practice Management of Water Supply and Sewerage 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 DoPIE – Best Practice Management of Water Supply and Sewerage 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 DoPIE – Best Practice Management of Water Supply and Sewerage 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 26% (19/20 27.50%)

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 26% 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.

**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.

**(i) Subsidies**

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

continued on next page ...

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**Note – Significant Accounting Policies (continued)**

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.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

**(ii) 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:

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**Operating result before capital income + interest expense**

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**Written down value of I,PP&E as at 30 June**

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As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.49% at 30 June 2021.

**(iii) 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 2021 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Planning, Industry and Environment (DoPIE) – Best Practice Management Water Supply and Sewerage 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.

**Byron Shire Council**

**Special Purpose Financial Statements**

for the year ended 30 June 2021

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