



two ways :: one outcome

AGENDA

AUDIT AND RISK COMMITTEE

THURSDAY, 30 AUGUST 2018

The Audit and Risk Committee Meeting of the Central Desert Regional Council will be held in the on Thursday, 30 August 2018 at 11:00am.

ORDER OF BUSINESS

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CONFIRMATION OF PREVIOUS MINUTES



ITEM NUMBER 4.1
TITLE Confirmation of Previous Minutes
REFERENCE 471765
AUTHOR Buke Ali Tunne, Finance Manager
DUE DATE Not Applicable

LINKS TO STRATEGIC PLAN

Goal 05: Management and Governance

RECOMMENDATION:

That the Audit and Risk Committee confirm the unconfirmed minutes of the meeting held 3 May 2018 as attached.

SUMMARY: The Audit and Risk committee is being asked to review the previous minutes to ensure they are a true and correct record of the meeting.

BACKGROUND

The Audit and Risk Committee needs to consider the unconfirmed minutes of the previous meeting before they confirm that they are accurate and truthfully reflect the discussions held during the meeting.

ISSUES, CONSEQUENCES AND OPTIONS

Nil

FINANCIAL IMPLICATIONS

Nil

ATTACHMENTS:

1 Draft minutes on 3 May 2018



MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD IN
THE PRESIDENT OFFICE ON THURSDAY, 3 MAY 2018 AT 9:30AM

The meeting started at 9:30am.

1. PRESENT

Jeff MacLeod (External Chair),
Cr Adrian Dixon,
Cr Norbert Patrick (via Teleconference) and
Cr David McCormack(via Teleconference)

Staff

Diane Hood (CEO),
Buke Ali Tunne (Finance Manager)

2. APOLOGIES

Leslie Manda (Chair)
Chris Kendrick (Director Corporate Services),

ABSENT WITHOUT APOLOGIES

Cr Renita Webb, noting that an email received from Atitjere office after the meeting advised Cr Webb was in the office and thought to be on the virtual meeting phone line, however she was not on the line from the HQ (host) point of view.

3. CONFLICT OF INTEREST

Nil

4 CONFIRMATION OF PREVIOUS MINUTES

4.1 CONFIRMATION OF PREVIOUS MINUTES

**AR001/2018 RESOLVED (Cr Patrick/Cr Dixon)
That the Audit and Risk Committee confirm the unconfirmed
minutes of the meeting held 30 November 2017.**

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AUDIT AND RISK COMMITTEE MEETING | PRESIDENT OFFICE | TUESDAY, 24 APRIL 2018 |
11:00AM

5. ACTIONS FROM PREVIOUS MINUTES

Nil

6. AUDIT AND RISK COMMITTEE REPORTS

6.1 STRATEGIC RISK MANAGEMENT

SUMMARY: The Council maintains a strategic risk register that identifies issues of particular importance to the Council. Council is currently preparing its four year Strategic Plan (as part of its Regional Planning process), once that step is finalised the Committee will need to review and update the strategic risk register to be applicable to the new plan.

AR002/2018 RESOLVED (Cr McCormack/Cr Dixon)
That the Committee note the progress made on the Council's Regional Planning.

7. GENERAL BUSINESS

7.1 NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

SUMMARY: The Audit and Risk Committee was being asked to review Notes to and forming part of the financial statements for the year ended 30 June 2017 – Note 1 - Significant accounting policies .

The Finance Manager discussed the key points and changes in Note 1

AR003/2018 RESOLVED (Cr Dixon/Cr Patrick)
That the Audit and Risk Committee review and note any changes required to Note 1 – Significant accounting policies based on South Australia model Financial Statements 2017.

The meeting terminated at 9:52am.

THIS PAGE AND THE PRECEEDING 1 PAGE ARE THE MINUTES OF THE Audit and Risk Committee HELD ON THURSDAY, 3 MAY 2018 AND CONFIRMED 30 August 2018.

Chairperson

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AUDIT AND RISK COMMITTEE MEETING | PRESIDENT OFFICE | TUESDAY, 24 APRIL 2018 | 11:00AM

GENERAL BUSINESS



ITEM NUMBER 7.1

TITLE Note 1 to the Financial Statements - Significant Accounting Policies

REFERENCE 472444

AUTHOR Chris Kendrick, Director of Corporate Services

LINKS TO STRATEGIC PLAN

Theme 1: Advocacy

Theme 2: Customer Service

Theme 3: Liveability

Theme 4: Sustainable Communities

Theme 5: Economic Growth

RECOMMENDATION:

That the Audit and Risk Committee review the draft Note 1 to the 2018/19 Financial Statements and provide feedback.

SUMMARY: The Audit and Risk Committee reviewed Note 1 to the Financial Statements for the year ended 30 June 2017 at its last meeting. This report is seeking the Committee's input into changes made for the financial year ended 30 June 2018.

BACKGROUND

Note 1 to the Financial Statements identifies the significant accounting policies of Council and is a key note to the Annual Financial Statements as the methods used to account for the different transactions follow the policies contained within this note.

Attachment 1 shows a track of the suggested changes to Note 1 of the 2017/18 Financial Statements.

ISSUES, CONSEQUENCES AND OPTIONS

The Committee can accept the changes as suggested or consider alternatives if they have any concerns that the changes do not align with Council's accounting policies and/or they lack clarity.

FINANCIAL IMPLICATIONS

Nil

ATTACHMENTS:

1 Note01-Significant_Accounting_Policies_17-18.docx

Central Desert Regional Council

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2018

Note 1 - SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1 Basis of Preparation

1.1 Compliance with Australian Accounting Standards

This general purpose financial report has been prepared in accordance with Australian Accounting Standards as they apply to not-for-profit entities, other authoritative pronouncements of the Australian Accounting Standards Board, and relevant Northern Territory legislation.

The financial report was authorised for issue by certificate under regulation 16 of the *Local Government (Accounting) Regulations*.

1.2 Historical Cost Convention

Except where stated below, these financial statements have been prepared in accordance with the historical cost convention.

1.3 Critical Accounting Estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates, and requires management to exercise its judgement in applying Council's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are specifically referred to in the relevant sections of this Note.

1.4 Rounding

All amounts in the financial statements have been rounded to the nearest dollar.

2 The Local Government Reporting Entity

Central Desert Regional Council is incorporated under the NT Local Government Act and has its principal place of business at 1 Bagot Street, Alice Springs NT 0870. These financial statements include the Council's direct operations.

3 Income recognition

Income is measured at the fair value of the consideration received or receivable. Income is recognised when the Council obtains control over the assets comprising the income, or when the amount due constitutes an enforceable debt, whichever first occurs.

Where grants, contributions and donations recognised as incomes during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the amounts subject to those undischarged conditions are disclosed in these notes. Also disclosed is the amount of grants, contributions and receivables recognised as incomes in a previous reporting period which were obtained in respect of the Council's operations for the current reporting period.

The actual amounts of untied grants received during the reporting periods (including allocations received in advance) are disclosed in Note 2.

4 Cash, Cash Equivalents and other Financial Instruments

Cash Assets include all amounts readily convertible to cash on hand at Council's option with an insignificant risk of changes in value with a maturity of three months or less from the date of acquisition.

Receivables for rates and annual charges bear interest at rates determined in accordance with the Local Government Act. Other receivables are generally unsecured and do not bear interest.

All receivables are reviewed as at the reporting date and adequate allowance made for amounts the receipt of which is considered doubtful.

5 Infrastructure, Property, Plant & Equipment

5.1 Land under roads

Council has elected not to recognise land under roads acquired prior to 1 July 2008 as an asset in accordance with AASB 1051 Land under Roads. Land under roads acquired after 30 June 2008 has not been recognised as in the opinion of Council it is not possible to reliably attribute a fair value, and further that such value if determined would be immaterial.

5.2 Initial Recognition

All assets are initially recognised at cost. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects' fees and engineering design fees and all other costs incurred. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.

All non-current assets purchased or constructed are capitalised as the expenditure is incurred and depreciated as soon as the asset is held "ready for use". Capital works still in progress at balance date are recognised as other non-current assets and transferred to *infrastructure, property, plant & equipment* when completed ready for use.

5.3 Subsequent Recognition

Certain asset classes are revalued on a regular basis such that the carrying values are not materially different from fair value. Additions acquired subsequent to a revaluation are recognised at cost until next revaluation of that asset class. Further detail of existing valuations, methods and valuers are provided at Note 6.

5.4 Depreciation of Non-Current Assets

Other than land, all infrastructure, property, plant and equipment assets recognised are systematically depreciated over their useful lives on a straight-line basis which, in the opinion of Council, best reflects the consumption of the service potential embodied in those assets.

5.5 Impairment

Assets that have an indefinite useful life are not subject to depreciation and are reviewed annually for impairment. Assets carried at fair value whose future economic benefits are not dependent on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof, are not subject to impairment testing.

Other assets that are subject to depreciation are reviewed 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 (which is the higher of the present value of future cash outflows or value in use).

Where an asset that has been revalued is subsequently impaired, the impairment is first offset against such amount as stands to the credit of that class of assets in Asset Revaluation Reserve, any excess being recognised as an expense.

6 Payables

6.1 Goods & Services

Creditors are amounts due to external parties for the supply of goods and services and are recognised as liabilities when the goods and services are received. Creditors are normally paid 30 days after the month of invoice. No interest is payable on these amounts.

6.2 Payments Received in Advance & Deposits

Amounts (other than grants) received from external parties in advance of service delivery, and security deposits held against possible damage to Council assets, are recognised as liabilities until the service is delivered or damage reinstated, or the amount is refunded as the case may be.

7 Employee Benefits

7.1 Salaries, Wages & Compensated Absences

Liabilities for employees' entitlements to salaries, wages and compensated absences expected to be paid or settled within 12 months of reporting date are accrued at nominal amounts (including payroll based oncosts) measured in accordance with AASB 119.

Liabilities for employee benefits not expected to be paid or settled within 12 months are measured as the present value of the estimated future cash outflows (including payroll based oncosts) to be made in respect of services provided by employees up to the reporting date. Present values are calculated using government guaranteed securities rates with similar maturity terms.

Weighted average discount rate	x.xx% (2017, 2.18%)
Weighted average settlement period	x.xx years (2017, 1.82 years)

No accrual is made for sick leave as Council experience indicates that, on average, sick leave taken in each reporting period is less than the entitlement accruing in that period, and this experience is expected to recur in future reporting periods. Council does not make payment for untaken sick leave.

7.2 Superannuation

The Council makes employer superannuation contributions in respect of its employees to the Statewide Superannuation Scheme. No changes in accounting policy have occurred during either the current or previous reporting periods.

8 Leases

Lease arrangements have been accounted for in accordance with Australian Accounting Standard AASB 117.

In respect of finance leases, where Council substantially carries all of the risks incident to ownership, the leased items are initially recognised as assets and liabilities equal in amount to the present value of the minimum lease payments. The assets are disclosed as assets under lease, and are amortised to expense over the period during which the Council is expected to benefit from the use of the leased assets. Lease payments are allocated between interest expense and reduction of the lease liability, according to the interest rate implicit in the lease.

In respect of operating leases, where the lessor substantially retains all of the risks and benefits incident to ownership of the leased items, lease payments are charged to expense over the lease term.

9 GST Implications

In accordance with Interpretation 1031 "Accounting for the Goods & Services Tax"

- Receivables and Creditors include GST receivable and payable.

- Except in relation to input taxed activities, revenues and operating expenditures exclude GST receivable and payable.
- Non-current assets and capital expenditures include GST net of any recoupment.
- Amounts included in the Statement of Cash Flows are disclosed on a gross basis.

10 Comparative Information

Comparative information has been reclassified to be consistent with the current year disclosure of equivalent information.11 Pending Accounting Standards

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period.

- AASB 7 Financial Instruments – Disclosures
- AASB 9 Financial Instruments
- AASB 15 Revenue from Contracts with Customers
- AASB 16 Leases
- AASB 1058 Income for Not-for-Profit Entities
- Standards containing consequential amendments to other Standards and Interpretations arising from the above - AASB 2014-5, AASB 2015-8, AASB 2016-1, AASB 2016-3, AASB 2016-4, AASB 2016-5, AASB 2016-6, AASB 2016-7, AASB 2016-8, AASB 2017-1, AASB 2017-3, AASB 2017-4, AASB 2017-5, AASB 2017-6, AASB 2017-7, AASB 2018-1 and AASB 2018-2.

Other than AASB 16 and AASB 1058 Council is of the view that none of the above new standards or interpretations will affect any of the amounts recognised in the financial statements, but that they may impact certain information otherwise disclosed.

Accounting Standard AASB 16 *Leases* may have a material effect on the amounts disclosed in these reports, particularly in relation to Infrastructure, Property, Plant & Equipment, but does not commence until the 2019/20 financial period, and it is not Council's intention to adopt this Standard early.

Accounting Standard AASB 1058 *Income for Not-for-Profit Entities* may have a material effect on the amounts disclosed in these reports, particularly in relation to the timing of the recognition of revenue from Grants & Subsidies, but does not commence until the 2019/20 financial period, and it is not Council's intention to adopt this Standard early.

GENERAL BUSINESS



ITEM NUMBER 7.2

TITLE Draft Financial Statements

REFERENCE 472490

AUTHOR Chris Kendrick, Director of Corporate Services

LINKS TO STRATEGIC PLAN

Theme 4: Sustainable Communities

RECOMMENDATION:

That the Audit Committee review the draft 2017/18 Financial Statements and provide any comment they may have on the document.

SUMMARY: The Audit and Risk Committee is being asked to review the draft 2017/18 Financial Statements to ensure they meet quality and legislative requirements.

BACKGROUND

The draft 2014/18 Financial Statements will be tabled at the meeting.

Regulation 15 & 16 of the Local Government (Accounting) Regulations are stated below. The Committee is being asked here to review the draft Financial Statements now in the process of the audit to ensure to the best of their ability that they comply with the requirements under regulation 15.

Extract from Local Government (Accounting) Regulations:

15 Annual financial statement

(1) A council's annual financial statement must conform with the requirements of the Accounting Standards applicable to a financial report.

(2) A council's annual financial statement must:

(a) contain details of rates levied for the financial year to which the statement relates; and

(b) state the nature (capital or operating) and amounts of grants and subsidies received during the relevant financial year (distinguishing those received from the Territory, the Commonwealth and other sources); and

(c) disclose all reserves set aside for specific purposes; and

(d) describe the nature and purpose of each function (as defined in the ABS Local Government Purpose classification) to which the council's income or expenditure for the financial year is attributable and:

(i) show the carrying value of assets that can be reliably attributed to each such function; and

(ii) show the income derived from each such function (distinguishing between income by way of grant and other income); and

(iii) show the expenditure that can be reliably attributed to each such function; and

(e) contain a comparison between the budgeted and the actual result for the relevant financial year, including a comparison between estimated and actual income, outgoings and fixed assets for each council function.

(3) The annual financial statement must (where relevant) include comparisons between income and expenditure for the financial year to which the statement relates and corresponding income and expenditure for the previous financial year.

16 Certification and delivery of annual financial statement

(1) When the annual financial statement has been prepared, the CEO must certify in writing that:

(a) the statement has, to the best of the CEO's knowledge, information and belief, been properly drawn up in accordance with the applicable Accounting Standards, the Act and these Regulations so as to present fairly the financial position of the council and the results for the relevant financial year; and

(b) the statement is in accordance with the accounting and other records of the council.

(2) The CEO must, as soon as practicable after the financial statement has been audited, lay the statement before the council.

ISSUES, CONSEQUENCES AND OPTIONS

The audit of the Financial Statements is currently underway and due to be completed by 30th September in order for the final audited statements to be issued to grant funders and included in the Council's Annual Report, due to be sent to the Minister by 15th November.

Any concerns the Committee has that results in changes to these reports, therefore, needs to be raised at this meeting to enable staff to incorporate those amendments before the auditor signs off on the statements.

FINANCIAL IMPLICATIONS

Nil

ATTACHMENTS:

1 To be tabled

Placeholder for Attachment 1

Draft Financial Statements

To be tabled

0 Pages

GENERAL BUSINESS



ITEM NUMBER 7.3

TITLE Developing Strategic Risks

REFERENCE 472307

AUTHOR Diane Hood, Chief Executive Officer

LINKS TO STRATEGIC PLAN

Theme 1: Advocacy

Theme 2: Customer Service

Theme 3: Liveability

Theme 4: Sustainable Communities

Theme 5: Economic Growth

RECOMMENDATION:

That the Audit and Risk Committee

- (a) Review the 2018 – 2022 Regional Plan and consider risks to the goals of the organisation;**
- (b) Agree the action of developing and recommending strategic risks to Central Desert Regional Council by 13th December, 2018;**
- (c) Develop and recommend a risk appetite statement; and**
- (d) Agree the proposed process for determining the strategic risks.**

SUMMARY:

These strategic risks need to be defined and agreed with specific reference to the new Regional Plan and its goals.

BACKGROUND

Central Desert Regional Council has adopted its 2018 – 2022 Regional Plan which includes the strategic plan and corporate goals which define where the Council wants to be in the longer term.

Strategic risks are organisation wide and should identify potential events or scenarios (internal and external) that may prevent Council from achieving its goals. Risk is measured in terms of impact and likelihood. Risk management and identification of strategic risks will allow Council to manage risk within its risk appetite and should provide reasonable assurance regarding the achievement of Council goals.

Common strategic risks include:

- External risks – competition, changes in legislation
- Human Resource risks – staffing, knowledge and skills
- Financial risks – cash flow, capital, asset replacement, cost pressures

- Structural risks – IT, intellectual property, regulatory actions (compliance)
- Physical risks – disasters
- Relationship risks – reputation, performance

Steps and timeline

The steps in developing and agreeing the strategic risks to the organisation are:

This meeting

1. Review Council's 2018 – 2022 Regional Plan and strategic goals (this meeting)
2. Discuss and agree recommended risk appetite and which risks to document and monitor (e.g. risk that are rated High or above)
3. Brainstorm / identify possible risks (by next meeting)

Meeting of December 13th 2018

4. Rank risks according to likelihood and impact
5. Agree the method of managing the strategic risks (Avoid, Transfer, Accept, Reduce impact)
6. Document and agree recommendations to Council
7. Council to consider, amend or agree January 2019
8. Monitoring and ongoing reporting to be put in place by CEO – a report should be made to each subsequent Audit and Risk Committee Meeting.

It should be noted that once the strategic risks are agreed, the organisation will operationally review operational risks and ensure these are also monitored.

2018 – 2022 Regional Plan Strategic Goals

THEME	GOAL
ADVOCACY	The needs of our community are understood by and actioned by all stakeholders.
CUSTOMER SERVICE	Council services are understood and service levels agreed; with known, useful and clear processes.
LIVEABILITY	Our communities foster quality of life for all residents.
SUSTAINABLE	Council can continue to provide infrastructure and

COMMUNITIES services to support residents.

ECONOMIC GROWTH A diverse, growing regional economy, with strong local employment.

Risk Ratings

The Committee should debate its recommendation regarding which risks (ratings) should be monitored. It is important to note the consequences of a risk apply to Council (as an entity) and not to individuals.

		Consequences				
		Insignificant	Minor	Moderate	Major	Catastrophic
Likelihood	Certain >90% chance	Medium	High	Extreme	Extreme	Extreme
	Likely 50% - 90% chance	Medium	Medium	High	Extreme	Extreme
	Possible 10% - 50% chance	Low	Medium	Medium	High	Extreme
	Unlikely 3% - 10% chance	Low	Low	Medium	High	High
	Rare <3% chance	Low	Low	Low	Medium	High

It is recommended that, at a minimum, all identified strategic risks rated High or Extreme are documented, have an agreed risk management plan in place and are monitored on a regular basis.

Risk Appetite

Risk appetite is the amount of risk Council is willing to accept or retain in order to achieve its goals. It is a statement that describes our attitude towards risk taking. Council should adopt a risk appetite statement which will assist staff in the management of risks (risk awareness). This committee should develop a recommendation as to the risk appetite statement.

To determine our risk appetite, Council should consider stakeholders and their expectations; analysis of the strategic risks; the desired level of risk exposure; what the level of uncertainty is and then form a statement(s) to communicate our risk appetite.

Levels of risk appetite include:

Averse – avoid risk at all costs

Minimal / Cautious – always prefer the safe option and only allow low risk, with limited potential reward

Open – willing to consider all options and chose the one offering higher reward, despite greater inherent risk

Hungry – eager to be innovative and choose options based on reward

It is recommended that Central Desert Regional Council determine its risk appetite considering the relative disadvantage of its residents; the inherently risk of the environment in which we operate; the need for significant step changes and the stability of the legislation environment under which it operates.

It is recommended that Council adopt an Open risk appetite.

A possible risk appetite statement could be:

Council has an Open risk appetite where it demonstrates risk awareness, with a focus on managing risks where the reward is seen to outweigh the risk and ensuring all business cases or proposals for new service plans contain a risk review and analysis.

All risks rated High or Extreme will be documented, have agreed risk management plans in place and be monitored on a regular basis.

Examples of strategic risks to consider for the next meeting:

Please refer to attachment one which provides examples of strategic risk, considering both Council's strategic goals and the types of strategic risk.

At the meeting of 21st December, 2018 Audit and Risk committee members will finalise the strategic risks based on their reviews and then undertake an analysis of likelihood and consequence before finalising their recommendation to Council.

ISSUES, CONSEQUENCES AND OPTIONS

If Council do not identify strategic risks, document risk management strategies and monitor / review; this decreases the chance of success of Council's strategic goals. It is a requirement for the organization to undertake this process.

The risk appetite statement and strategic risks also provide direction in terms of identifying and managing operational risks which would be a next step in the organisation wide process.

FINANCIAL IMPLICATIONS

Financial management is negatively impacted if risks are not identified and managed. Poor risk management can have an impact on insurance as well as on asset management.

ATTACHMENTS:

1 TABLE 1 Examples of Strategic Risk.docx

TYPE OF RISK →	EXTERNAL	HUMAN RESOURCE	FINANCIAL	STRUCTURAL	PHYSICAL	RELATIONSHIP
GOAL ↓						
Advocacy	Council advocacy platform contradicts or is at odds with NT Government policy and /or Federal policy.					Council advocacy platform contradicts or is at odds with NT Government policy and /or Federal policy.
Customer Service				Council does not have the ICT capacity or capability to provide services		
Liveability		Council has insufficient staffing levels to deliver on the ground service requirements.				
Sustainable Communities			Council is unable to deliver services within available funding.		* There is insufficient water availability to sustain a community. * Council fails to establish reserves to fund asset replacement. * Road funding is insufficient to maintain trafficable roads to Australian standards.	
Economic Growth	* Environment drives lower population. * Communities fail to develop new businesses or attract companies.					

TABLE 1: Examples of strategic risks