



AGENDA

**AUDIT AND RISK MANAGEMENT
COMMITTEE MEETING**

MONDAY, 11 FEBRUARY 2019

Notice is given that the next Audit and Risk Management Committee Meeting of Tiwi Islands Regional Council will be held on:

- Monday, 11 February 2019 at
- Winnellie TIRC Office
- Commencing at 10:00 AM

Your attendance at the meeting will be appreciated.

Marion Scrymgour
Chief Executive Officer

AGENDA**1 WELCOME & APOLOGIES**

- 1.1 WELCOME
- 1.2 PRESENT
- 1.3 APOLOGIES
- 1.4 LEAVE OF ABSENCE
- 1.5 DECLARATION OF INTEREST OF MEMBERS OR STAFF

2 CONFIRMATION OF PREVIOUS MINUTES

Audit and Risk Management Committee - 5 November 2018..... 1

3 GENERAL BUSINESS

- 3.1 BUSINESS ARISING FROM PREVIOUS MINUTES 5
- 3.2 RESIGNATION OF AN ELECTED MEMBER - PIRLANGIMPI WARD 10
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4 REPORTS FOR INFORMATION

Nil



**MINUTES OF THE AUDIT AND RISK MANAGEMENT COMMITTEE MEETING HELD IN
THE WINNELLIE TIRC OFFICE ON MONDAY, 5 NOVEMBER 2018 AT 10:00 AM**

1 WELCOME & APOLOGIES

1.1 Welcome

The meeting opened at 10.00am

1.2 Present

Chairperson: Brendan Dowd.

Committee Members: Sandra Cannon (2nd Independent member), Mayor Gawin Tipiloura and Cr Lynette De Santis and Cr Marius (Pirrawayingi) Puruntatameri.

Officers: Marion Scrymgour (CEO), Bala Donepudi (Finance Manager), Mark Blackburn (Management Consultant), Shane Whitten (CFO).

Minuter: Marion Scrymgour.

1.3 Apologies

Nil

1.4 Leave of Absence

Nil

1.5 Declaration of Interest of Members or Staff

Nil

2 CONFIRMATION OF PREVIOUS MINUTES

Audit and Risk Management Committee - 6 June 2018

1 RESOLUTION

Moved: *Lynette DeSantis*

Seconded: *Marius (Pirrawayingi) Puruntatameri*

That the minutes of the Audit and Risk Management Committee held on 6 June 2018 as circulated, be confirmed as a true and correct record of that meeting.

CARRIED

3 GENERAL BUSINESS

3.1 BUSINESS ARISING FROM PREVIOUS MINUTES

General discussion regarding whether some of the items there should be a verbatim outline of what was discussed. General consensus that in discussion if the item

being discussed required a verbatim outline then the Chairperson would make the call on that.

RECOMMENDATION:

1. That the Committee accepts these discussions and note the report;
2. That the agenda and all information is provided for approval to the Chairperson prior to the ARMC meeting;
3. Once approved, the Agenda and information to be circulated 1 week in advance to all Members of the ARMC.

3.2 POPULATION OF AUDIT AND RISK WORK PLAN

This report is put before the committee members for discussions.

RECOMMENDATION:

1. That the Committee notes and receive this report for information, accepts these discussions and note the work that has been undertaken and will update the Audit and Risk Management Work Plan as required.
2. That CEO sends to the chairperson of the ARMC the meeting dates for 2019.

3.3 AUDIT AND RISK MANAGEMENT COMMITTEE SURVEY SUMMARY

The collated ARMC assessment was prepared by me following receipt of completed survey forms from five (5) ARMC members and executive staff.

RECOMMENDATION:

1. That the Committee reviews the ARMC assessment survey and provide direction at the next meeting or to the Chairperson of the ARMC as to the distribution and the implementation;
2. That the CEO circulate all contact details to the chairperson and all members ARMC.

3.4 ANNUAL FINANCIAL STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

RECOMMENDATION:

1. That the Committee reviewed and the advice to the Council on the Final Audited Financial statements for the year ended 30 June 2018;
2. That in all future EOFY meetings of the ARMC – the committee seeks the presentation of the Audit report to be presented to them by the Independent Auditors.

3.5 MANAGEMENT REPRESENTATION LETTER

To provide advice to the Audit Committee on the findings and recommendations

arising from the final 2016-17 audit conducted by Merit Partners and the proposed response and actions by management to address the audit recommendations.

The Finance Manager went through the Management responses to the Audit observations.

RECOMMENDATION:

1. That the Committee receives and note the audit management representation letter and the outline from the Finance Manager and the CFO as to management responses to the Auditors;
2. The ARMC members again requested that in future the presentation should be done by the Auditors rather than staff.

3.6 TIRC AUDIT AND RISK MANAGEMENT COMMITTEE

RECOMMENDATION:

That the Committee noted the Terms of Reference as tabled.

At this point of the meeting staff members Shane Witten (Chief Financial Officer) and Bala Donepudi (Finance Manager) left room whilst Mark Blackburn (Management Consultant) presented his organisational review to members.

3.7 ORGANISATIONAL REVIEW

Mark Blackburn – Consultant presented the Committee with an overview of his report on the organisational review update for members information.

RECOMMENDATION:

That the Committee receive and note this report for information.

3.8 RISK MANAGEMENT POLICY

Risk Management policy tabled to all members with an approved Fraud Protection Policy as approved by the council for ARMC information.

RECOMMENDATION:

That the Committee receive and note this report for information.

3.9 APPROVED FRAUD PROTECTION POLICY

The Fraud protection policy as approved by the Council tabled for information.

2 RESOLUTION

Moved: Marius (Pirrawayingi) Puruntatameri
Seconded: Gawin Tipiloura

1. That the Committee receive and note this report for information;
2. That a circular motion/minute is provided for any information circulated for

ARMC Members out of session.

CARRIED

4 REPORTS FOR INFORMATION

Nil

5 NEXT MEETING

TBA

6 CLOSURE

The meeting closed at 12:30 pm.

GENERAL BUSINESS

| | |
|--------------------|--|
| ITEM NUMBER | 3.1 |
| TITLE | Business Arising from Previous Minutes |
| REFERENCE | 223358 |
| AUTHOR | Maina Brown, Governance & Compliance Manager |



BACKGROUND

This is the section of the meeting where any business arising from previous meetings is dealt with.

Attached are the draft minutes from the Audit & Risk Management Committee Meeting held on 5th November 2018 for Committee members to read and provide any comments.

ISSUES/OPTIONS/CONSEQUENCES

Nil

CONSULTATION & TIMING

Nil

RECOMMENDATION:

That the Committee accepts these discussions and report.

ATTACHMENTS:

1 2018_5_11_ARMC_Minutes_Draft.pdf



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Nil

1.5 Declaration of Interest of Members or Staff

Nil

2 CONFIRMATION OF PREVIOUS MINUTES

Audit and Risk Management Committee - 6 June 2018

1 RESOLUTION

Moved: Lynette DeSantis

Seconded: Marius (Pirrawayingi) Puruntatameri

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3 GENERAL BUSINESS

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2 RESOLUTION

Moved: Marius (Pirrawayingi) Puruntatameri
Seconded: Gawin Tipiloura

1. That the Committee receive and note this report for information;
2. That a circular motion/minute is provided for any information circulated for ARMC Members out of session.

CARRIED

4 REPORTS FOR INFORMATION

Nil

5 NEXT MEETING

TBA

6 CLOSURE

The meeting closed at 12:30 pm.

GENERAL BUSINESS

| | |
|--------------------|---|
| ITEM NUMBER | 3.2 |
| TITLE | Resignation of an Elected Member - Pirlangimpi Ward |
| REFERENCE | 223400 |
| AUTHOR | Maina Brown, Governance & Compliance Manager |



This report is to notify the Audit and Risk Management Committee (ARMC) members regarding the recent resignation of an elected member of Pirlangimpi Ward.

BACKGROUND

On 25 January 2019 Council received a formal resignation from Marius (Pirrawayingi) Puruntatameri of Pirlangimpi Ward effective immediately. Due to his resignation from Council he can no longer be a member of the ARMC.

The ARMC can make a recommendation to Council in order to fill the vacancy.

The Chief Executive Officer has received an expression of interest from Cr Bourke, Pirlangimpi Ward for the vacant position.

ISSUES/OPTIONS/CONSEQUENCES

Nil

CONSULTATION & TIMING

Nil

RECOMMENDATION:

That the Committee:

1. Receive and note this report for information.
2. Nominate Therese (Wokay) Bourke to be appointed as the Pirlangimpi Ward representative on the Audit and Risk Management Committee up until their end of term or resigns from the position.

ATTACHMENTS:

GENERAL BUSINESS

| | |
|--------------------|--|
| ITEM NUMBER | 3.3 |
| TITLE | TIRC Management Letter 2018 |
| REFERENCE | 223423 |
| AUTHOR | Shane Whitten, Chief Financial Officer |



This report is written to provide an update to the Risk and Audit Committee on progress to address the 12 issues raised by Merit Partners in their Management Letter from the audit of the 2018 financial statements.

BACKGROUND

The 12 issues raised by Merit Partners and our responses are:

1. Non-Compliance with Local Government Act and Local Government (Accounting) Regulations

We acknowledge that our 2017 annual report was not submitted on time. Our 2018 annual report was submitted by the due date of 15 November 2018.

Our asset register has been updated such that we will be able to comply with the requirements of Section 15 (d)(i) of the Local Government (Accounting) Regulations with respect to the disclosure of asset carrying values by function (as defined in the ABS Local Government Purpose Classification).

2. Grant Acquittals

All grant acquittals for the year to June 2018 have been provided to the auditors. There are two acquittals that remain outstanding to the funding bodies (Youth Diversion and Outstations). We expect these to be resolved in the coming days.

We have also completed all (unaudited) grant acquittals for the half year ended 31 December. All have been submitted to the relevant funding bodies, along with the relevant operational performance reports, with the exception of PMC. We have written confirmation from PMC that they acknowledge their new website portal is not yet ready to receive our reports, and they have adjusted the due date accordingly.

3. Cash Handling &

4. Policies and Procedures – Receipts

These two issues are currently under review. We have undocumented processes that each location do follow but acknowledge further work is required. We are investigating some simple cost effective software that will provide receipting and banking summaries (both cash and EFT) as the software can be linked directly to EFT machines and receipt printing.

5. Bank Signatories

All bank signatories have been reviewed and updated by the CFO. Current staff authorised to electronically approve payments are:

Marion Scrymgour - CEO

Shane Whitten – CFO

Bala Donepudi – Finance Manager

Mark Armstrong –Manager Organisational Development and Change

6. Stocktake Issues

For the 2018/2019 financial year, all relevant staff will be issued with written stocktake instructions.

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7. Vendor Listing Review

A total of 351 suppliers were made inactive on 13 November 2018 on the basis that there had been no activity with them for greater than 12 months.

8. End of Month Process Reviews

Monthly balance sheet reconciliations are now being reviewed and signed by either the Finance Manager or CFO for bank, accounts receivable and accounts payable. We further plan to reconcile, review and evidence the employee entitlements on a monthly basis.

9. Accumulation of Leave Balances

An excess leave report is prepared monthly and circulated to senior management. Management is actively managing those staff members with excess leave.

10. Annual leave forms

The payroll team continue to monitor the compliance of all payroll (including annual leave forms) forms.

11. GST Errors in Grant Recognition

Reference is made to the relevant funding agreement to check the GST status of all payments received. Clarification is sought from the Grants and Policy Manager where any confusion exists.

12. Long Service Leave Calculation

We will ensure the correct calculation is used in our financial statements for the year ended June 2019.

ISSUES/OPTIONS/CONSEQUENCES

N/A

CONSULTATION & TIMING

N/A

RECOMMENDATION:

That the Committee receive and note this report for information.

ATTACHMENTS:

1 TIRC Management Letter 2018 (Signed).pdf



Private and confidential

6 November 2018

The Council
Tiwi Islands Regional Council
PMB 267
Winnellie NT 0822

Attention: Marion Scrymgour

Dear Council Members

2018 Audit of Tiwi Islands Regional Council

In order to carry out our duties and responsibilities as auditors, Merit Partners is required by ASA 260 "Communication of Audit Matters to Those Charged With Governance" ("ASA 260"), to communicate to you setting out the following matters in respect of the audit of Tiwi Islands Regional Council (the "Council").

Our fieldwork is complete and we have issued a qualified opinion and an emphasis of matter regarding going concern dated 30 October 2018 as follows:

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate evidence to support the opening balance of Prescribed Buildings of \$16,558,525 and Prescribed Infrastructure of \$2,717,489 as at 1 July 2017. These assets are carried 'at revaluation' within Note 8 to the financial statements. As no independent valuations had been obtained on these assets since 30 June 2010, we were unable to determine if their opening carrying values reflected current market conditions at 1 July 2017.

We were unable to obtain sufficient appropriate evidence to support the opening balance of Inventories of \$405,886 in the statement of financial position as at 1 July 2017, and were unable to satisfy ourselves by alternative means concerning the completeness, accuracy, existence and valuation of these inventories.

Since opening balances enter into the determination of financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the deficit/surplus for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.

Emphasis of Matter Regarding Going Concern

Without further modifying our opinion, we draw attention to Note 1 Economic Dependency and Going Concern in the financial report which indicates that the Council incurred an operational deficit after depreciation of \$1,468,317 for the year ended 30 June 2018 (2017: deficit of \$2,371,795).

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under Professional Standards Legislation

At the date of this report, the Council has and is undertaking reforms in relation to its operations and governance to improve its cash requirements and financial position. The future operations of the Council depend upon the continued funding from government, the outcome and the successful implementation of the reforms, and its ability to source other funds to address its net current liabilities position and negative cash flow position. As the outcome of the reforms is not yet determinable and along with the other matters set forth in Note 1 Economic Dependency and Going Concern, there exists a material uncertainty that may cast significant doubt on the Council's ability to continue as a going concern and therefore the Council may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on Legal and Regulatory Requirements

We reported the following instances of non-compliance with the *Local Government Act* and the *Local Government (Accounting) Regulations* in our audit report:

- The financial statements do not include information as required under Part 7 Section 15(2)(d)(i) of the *Local Government (Accounting) Regulations* which requires disclosures on the carrying value of assets that can be reliably attributed to each function (as defined in the ABS Local Government Purpose Classification).
- The audited financial statements for the year ended 30 June 2017 were not submitted to the Northern Territory Grants Commission, on or before 15 November 2017 as required by Part 7 Section 17(1)(a) of the *Local Government (Accounting) Regulations*.

As required by Section 135(1)(c) of the *Local Government Act*, we will report the above instances of non-compliance with the *Local Government Act* and the *Local Government (Accounting) Regulations* to the Minister of Housing and Community Development.

Qualitative aspects of accounting practices and financial reporting

Our role as auditor requires a thorough assessment of audit risk across the Council's business. This includes discussions with management, an assessment of prior year issues, remaining abreast of your business and continuously looking forward at changes on the horizon and their impact on the business. In our professional judgement, the findings below need to be communicated to you:

Audit focus and finding: Going concern

The ability of the Council to continue as a going concern is dependent upon continued funding and support from the Australian and Northern Territory Governments. It is noted that the Council incurred an operational surplus before depreciation of \$571,096 for the year ended 30 June 2018. After depreciation, the Council recorded a deficit for the year of \$1,468,317. For the year ended 30 June 2018, the Council budgeted for a deficit after depreciation of \$2,122,186.

At the date of the audit report, the Council has and is undertaking reforms in relation to its operations and governance to improve its cash requirements and financial position. The future operations of the Council depend upon the continued funding from government, the outcome and the successful implementation of the reforms, and its ability to source other funds to address its net current liabilities position and negative cash flow position. As the outcome of the reforms is not yet determinable and along with the other matters set forth in Note 1 Economic Dependency and Going Concern, there exists a material uncertainty that may cast significant doubt on the Council's ability to continue as a going concern and therefore the Council may be unable to realise its assets and discharge its liabilities in the normal course of business.

Because of the existence of the above material uncertainty, the audit report includes an emphasis of matter regarding going concern.

The Council should continue to actively monitor its cashflow to ensure it is able to meet its debts as and when they fall due. Action should be taken to address the profitability of the Council. By implementing annual budgets and cash flow forecasts the Council can have a financial plan in place that will assist with cash flow management.

Audit focus and finding: Revenue recognition

We have assessed management's application of the revenue recognition principle by reviewing the relevant terms and conditions of a sample of grant funding agreements to ascertain whether the accounting treatment adopted by the Council for each grant was consistent with AASB 1004 *Contributions*. Other user charges and other operating revenue are also recognised as income in accordance with AASB 118 *Revenue*. This is likely to be impacted in future years by changes in Australian Accounting Standards.

The Council needs to consider the impacts of the new revenue accounting standard and consider if early adoption in the 2019 year is appropriate. Financial impacts of this standard should be disclosed in the 2019 financial year.

Audit focus and finding: Property, plant and equipment

In July 2018, the Council undertook a full review of its building and infrastructure assets. The fair value of the Council's fixed assets was determined and approved by the Council on the basis of an independent valuation carried out by JLL, who are certified practicing valuers. At that time, valuation reports were reviewed to ascertain assets were valued appropriately and the methods and assumptions used by the valuers appeared sound and robust and in compliance with the Australian Accounting Standards.

As in the past audits, we have performed substantive audits at year end for the majority of the accounts by:

- 1) reviewing the Council's going concern assessment;
- 2) reviewing the valuation reports from an independent property valuation specialist; and
- 3) assessing the probability of recovery of non-financial assets.

We have also reviewed the Council's minutes of meetings to consider whether there are any other events that could impact the recoverability of its assets in the future. We obtained and reviewed the Council's Fixed Assets Register and agreed the balances to the general ledger. Samples of additions and disposals during the year were checked and agreed to related supplier invoices and approved authority to dispose forms.

Management believes that the value of the infrastructure, property, plant and equipment at 30 June 2018 are deemed at fair value.

Repairs and maintenance expenses were reviewed to ascertain that relevant transactions of a capital nature have not been omitted from being capitalised. Fixed asset useful lives and depreciation rates, depreciation and amortisation accounts have been tested to ascertain their reasonableness. Recoverability of the infrastructure, property, plant and equipment was also discussed with management. No significant issues were identified during the audit.

Audit focus and finding: Organisational review

During the financial year the Council engaged an external consultant to conduct an organizational review into the Council's operations. The review focused on the five areas of:

- Leadership
- Financial sustainability
- Asset and plant management
- Program management
- Communications

Included within the final report were a total of 23 recommendations, which were divided between the categories raised above. This also included three potential organizational restructure options, including the consultant's recommended restructure.

In August 2018, the Council documented the status of the recommendations raised within the report. As of this date, of the 23 recommendations raised, four had been resolved, 14 were ongoing and five had yet to be addressed.

It is recommended that the Council continues to monitor and address the status of the recommendations issued to ensure good corporate governance.

Summary of audit adjustments

All audit differences identified during the course of the audit have been adjusted by management except for one unadjusted audit difference. Audit adjustments have been detailed in [Appendix A](#).

Understanding the 2018 financial statements

The Council reported a deficit of \$1,468,317 during the financial year. More detailed analysis and understanding of the financial statements has been set out in [Appendix B](#).

Assessment of control environment

As part of our audit of the financial statements, we obtained an understanding of internal controls sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

Our audit procedures do not address all internal control and accounting procedures and are based on selective tests of accounting records and supporting data and have not been designed for the purposes of making detailed recommendations. As a result, our procedures would not necessarily disclose all weaknesses in the Council's internal control environment, and you should not assume that there are no additional matters that you should be aware of in meeting your responsibilities.

The matters detailed in [Appendix C](#) are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

A follow up of previously raised control issues has been documented in [Appendix D](#).

Changes in regulatory reporting

The table in **Appendix E** lists all applicable standards/interpretations issued but not yet effective for 30 June 2018 year ends and assumes the Council has elected not to "early adopt" any of these standards/interpretations.

Written representations from management

We have received a letter of representation from management.

Other required communications

We are required by law to report to you certain matters that are not otherwise detailed in this report. This has been detailed in **Appendix F**.

Independence

We confirm that in our professional judgment, the engagement team and Merit Partners are independent. We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. Should you have any specific matters that you wish to discuss, please contact us.

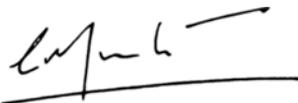
ASA 260 *Communication With Those Charged With Governance* requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The aim of these communications is to ensure full and fair disclosure by us to those charged with governance on matters in which you have an interest.

Listed in **Appendix G** are Merit Partners' key firm-wide policies and processes to maintain independence and objectivity.

This letter has been prepared for the sole use of the Council members, management and others within the Council. It must not be disclosed to a third party or quoted to or referred to without our written consent. No responsibility is assumed by Merit Partners to any other person.

Finally we would like to take this opportunity to thank your staff for the co-operation we have received throughout our audit. If there are any further matters which you wish to discuss concerning our audit, please do not hesitate to call us.

Yours faithfully



MunLi Chee
Director

Appendix A Summary of Audit Adjustments

Summary of adjusted differences

The following table contains a list of audit adjustments we identified that have subsequently been adjusted by management:

| Account 30 June 2018 | Net Assets Debit / (Credit) | Income Statement Debit / (Credit) |
|---|--------------------------------|--------------------------------------|
| To accrue June 2018 consultancy fees | (13,973) | 13,973 |
| To recognise 2017-18 grant income that was received on 30 August 2018 | 10,294 | (10,294) |
| To recognise the use of election reserve | 27,522 (27,522) | |
| To correct TIRC grant income received previously recorded gross of GST | 51,234 | (51,234) |
| Net increase (decrease) in current period | 47,555 | (47,555) |

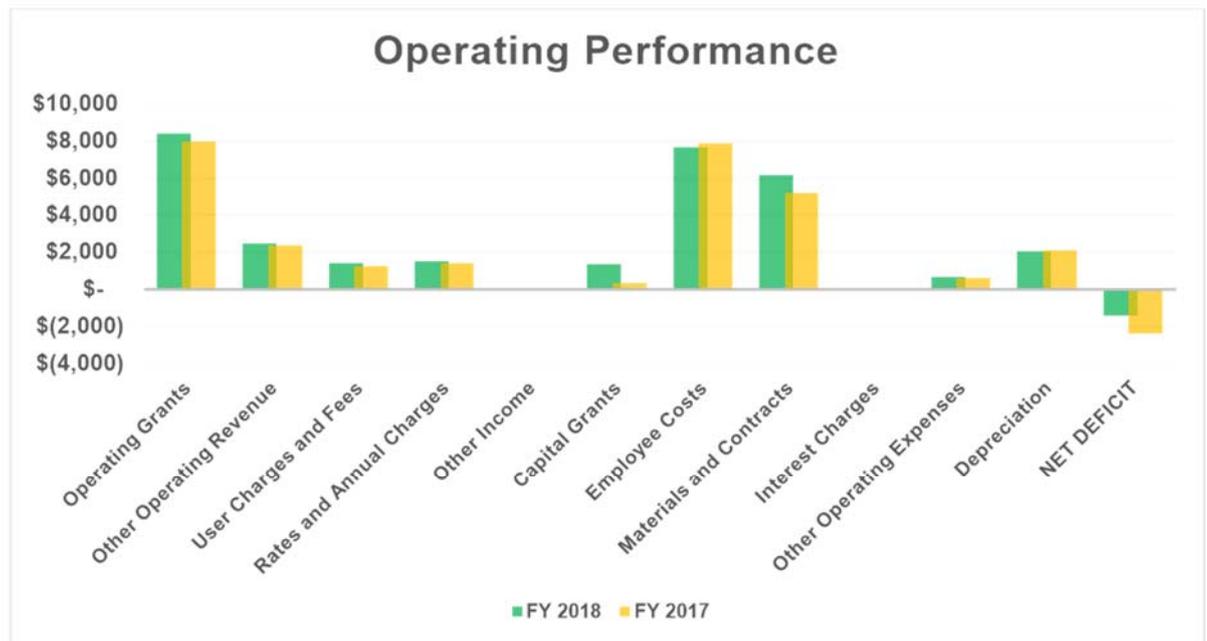
Summary of unadjusted differences

The following differences have been identified during the course of our audit and have not been considered material by management or by us for adjustment. We are bringing these to your attention to enable you to form your own view on these items:

| Account 30 June 2018 | Net Assets Debit / (Credit) | Income Statement Debit / (Credit) |
|--|--------------------------------|--------------------------------------|
| Unrecorded liability – Puma Fuel Purchase on 26 June 2018 | (9,625) | 9,625 |
| Net increase (decrease) in current period | (9,625) | 9,625 |

Appendix B Understanding the Financial Statements

Key components of the Council's earnings



Grants

This relates to funding received from NT and Commonwealth Governments. The increase within operating grants is attributed to specific purpose grants in relation to Executive Leadership Finance and Compliance (\$550k), Municipal and Essential Services (regional) (\$134k) and NT Jobs Package (\$123k) collected during the year.

The increase in capital grants is explained by specific purpose grants in relation to a New Car and Passenger Ferry grant (\$500k), Purchase of Second Hand Grader grant (\$279k), Installation of Security Alarm System grant (\$280k) and Installation of Dumb Barge Pontoon in Pirlangimpi grant (\$239k) collected during the year.

Rates and annual charges

These are statutory rates and charges collected from the community. New rates and charges are issued through a Rates Declaration at beginning of each year. The upward movement is due to an increase in rates and user fees on rateable properties during the year.

User charges and other operating revenue

User charges and other operating revenue relates to income mainly generated from the Council's contract income, sales income and user charges such as airport maintenance, airport landing fees, airport inspection, accommodation and fuel sales, Centrelink agent services, and ferry services. These charges present modest increases from the previous year.

Employee costs

Employee costs slightly decreased by \$184K from the previous year, which was driven mainly by the decrease in the average numbers of employees during the year.

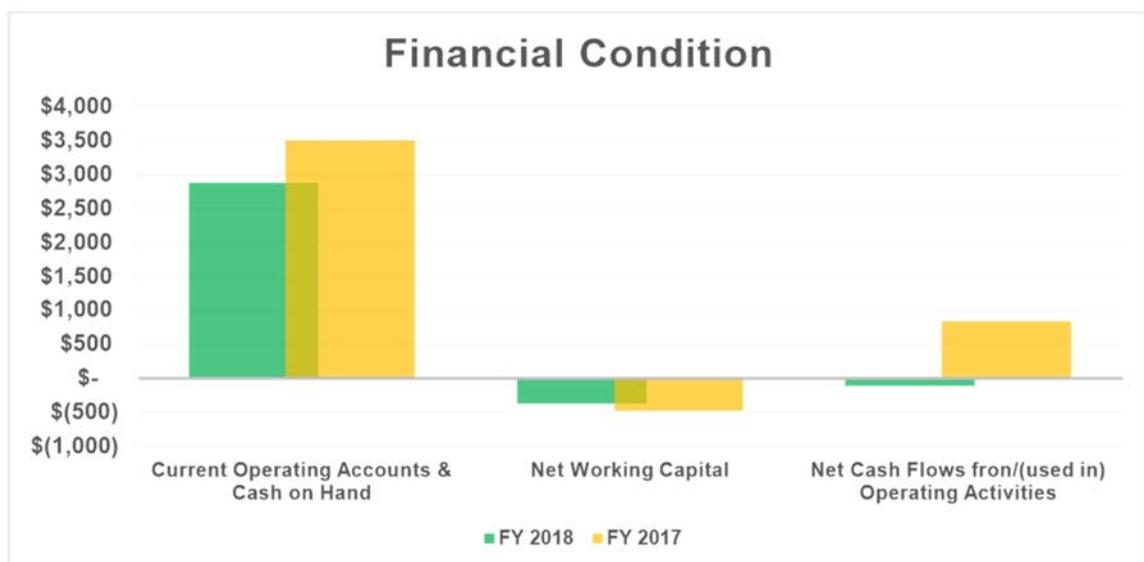
Materials and contracts

This expense increased as related grant income, user charges income, sales income and contract income has increased by \$400K or 3% compared to the previous year. Also, during the year, the Council has spent \$108K legal expenses in relation to the on-going matter with Aldebaran Contracting. In addition to this, the Council has engaged an external consultant to review the organisation's operational structure. Furthermore, an external valuer was recruited to perform the valuation of building and infrastructure assets. These expenses totalled approximately \$75K.

Net deficit

The Council recognised a net deficit of \$1.47 million during the year (2017: deficit of \$2.37 million).

Key components of the Council's financial position



Cash & Short-term Investments

The Council has less cash and short term investments compared to the previous year due to the negative cash flows generated. Of the total cash amount, approximately \$3.4 million relates to cash that is restricted by grant funding agreements. It indicates that the Council has used its restricted cash allowance for its operations for the current financial year. The Council has a high probability of facing financial distress.

Net Working Capital

Net working capital is an indication of whether the Council has sufficient funds to pay off its current obligations (including employee provisions). The Council's negative net working capital of \$380K indicates that the Council may be unable to settle its current liabilities as and when they fall due.

Cash Flows from Operating Activities

The Council shows negative cash outflows from its operating activities of \$121K during the year (2017: \$821K inflow). This has been driven mainly by an increase of \$3.5m in payments for materials and contracts from the prior year. It provides further doubt over the Council's ability to continue under the going concern basis. It should be noted that the above cash flows include Northern Territory and Commonwealth grants collected in each period amounting to:

| | |
|------|----------------|
| 2018 | \$9.73 million |
| 2017 | \$8.29 million |

Appendix C Audit Observations

The following table summarises the key issues and their risk ranking.

| Key Issues | High Risk | Moderate Risk | Low |
|--|-----------|---------------|-----|
| Non-Compliance with Local Government Act and Local Government (Accounting) Regulations | ✓ | | |
| Grant Acquittals | ✓ | | |
| Cash Handling | | ✓ | |
| Policies and Procedures – Receipts | | ✓ | |
| Bank Signatories | | ✓ | |
| Stocktake Issues | | ✓ | |
| Vendor Listing Review | | ✓ | |
| End of Month Process Reviews | | ✓ | |
| Accumulation of Annual Leave Balances | | | ✓ |
| Annual Leave Forms | | | ✓ |
| GST Errors | | | ✓ |
| Long Service Leave Calculation | | | ✓ |

Overview of Risk Ranking System

Though we have rated each finding individually on a standalone basis, you should also assess the collective impact of these matters, together with other findings from within the Council.

| | |
|--|---|
| High Needs significant improvement | Immediate corrective action is required. These recommendations relate to a serious weakness which exposes the organisation to a material extent in terms of achievement of corporate objectives, financial results or otherwise impair the Council's reputation. |
| Moderate Needs substantial improvement | Corrective action is required, generally within 6 months. A control weakness, which can undermine the system of internal control and/or operational efficiency and should therefore be addressed. |
| Low Needs some improvement | Corrective action is required, generally within 6 to 12 months. A weakness which does not seriously detract from the system of internal control and/or operational effectiveness/efficiency but which should nevertheless be addressed by management. |

Disclaimer

Issues identified are only those found within the course of the audit for year ended 30 June 2017. Recommendation issues are intended solely for the use of Council's management. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Council's or for any purpose other than that for which it was prepared.

| Observation | Effect | Risk category | Recommendation | Management Response |
|--|--|---|--|---|
| <p>Non-Compliance with Local Government Act and Local Government (Accounting) Regulations</p> <p>The following matters were noted during the conduct of the audit:</p> <ul style="list-style-type: none"> The audited financial statements for the year ended 30 June 2017 were not submitted to the NT Grants Commission on or before 15 November 2017 as required by Section 16 of the Local Government Act (Accounting) Regulations. Please note that this area of non-compliance was not identified for the year ended 30 June 2018. Section 15(d)(i) of the Local Government (Accounting) Regulations provides that a Council must show the carrying value of assets that can be reliably attributed to each function (as defined in the ABS Local Government Purpose Classification). It was noted that while income and expenditure that could reliably be attributed to each function was presented in the notes to the financial statements, the carrying value of the assets for each function was not presented. | <p>The Council is in breach of the Local Government Act and Local Government (Accounting) Regulations.</p> | <p style="text-align: center; background-color: red; color: white;">High</p> | <p>The Council should ensure that it maintains proper accounts and records and appropriate policies and procedures that complies with the Local Government Act and the Local Government (Accounting) Regulations.</p> <p>The Council should also conduct regular reviews and self-audits that will identify any irregularities or deficiencies in a timely manner.</p> | <p>We acknowledge last year's financial statements were submitted after the November 15 deadline. We will meet this year's deadline.</p> <p>We understand that the current fixed asset register requires updating to enable the disclosure of assets by function. We have allocated a resource to this project and we will complete this work by 21st December.</p> |

| Observation | Effect | Risk category | Recommendation | Management Response |
|--|--|------------------------|--|--|
| <p>Grant Acquittals</p> <p>At the time of writing this letter, no grant acquittals have been completed in relation to the year ending 30 June 2018.</p> <p>It was also noted that there are a number of unspent funds for the period ended 30 June 2018 which suggests that either the intended service has not been undertaken, or the quality of intended service is compromised, and an inefficient use of funds provided.</p> | <p>Non-compliance with funding agreements may result in repercussions with funding bodies and delays in receipts of future grants.</p> <p>Unspent funds may be recalled which would be detrimental to the Council's objectives</p> | <p>High</p> | <p>It is recommended that the grant acquittals are provided at the same time as the audit, so as to ensure a more efficient process for both engagements whilst meeting the reporting deadlines in the respective funding agreements.</p> <p>The Council needs to consider strategies to efficiently utilise the grant funds provided to ensure the quality of service delivery is not compromised and that funds are utilised efficiently and effectively for the benefit of the community.</p> | <p>Work is still ongoing with respect to the 2018 acquittals. We are currently reviewing all of our grant obligations and funding agreements. Discussions with a number of funding bodies have also commenced. We expect this full review to be completed early in 2019.</p> |
| <p>Cash Handling</p> <p>During our examination of the receipting process, we noted that there are currently no formal controls in place over cash sales.</p> <p>We understand that the current process is for cash to be banked every fortnight, with the full cash count being completed by the Admin Leader. However, there is no reconciliation paper in place that is signed by the preparer.</p> | <p>Without regular reconciliations that are prepared and reviewed by separate employees, there is a greater chance of misappropriation due to the nature of cash.</p> | <p>Moderate</p> | <p>Daily cash reconciliations should be prepared and signed off by the employee performing the reconciliation. These should then be approved by a senior employee.</p> | <p>Our cash handling process will be reviewed as a matter of urgency by our new CFO. Relevant reconciliation procedures will be implemented as quickly as possible.</p> |

| Observation | Effect | Risk category | Recommendation | Management Response |
|--|--|-----------------|--|--|
| <p>Policies and Procedures – Receipts</p> <p>While the Council has expended efforts in continuously improving the internal control environment of the Council over the year, there remain areas where management can further improve the controls in the receipting process.</p> <p>During our audit, we noted the following weakness in the Council's internal controls:</p> <ul style="list-style-type: none"> • There is no daily reconciliation performed between cash received and cash recorded. • Absence of policy and procedure manual. <p>Bank Signatories</p> <p>The bank confirmation received from Commonwealth Bank of Australia at 30 June 2018 identified two former employees as account signatories. This was in respect of the Operating Account and the Trust Account.</p> | <p>As the Council relies on one person to complete the receipting process, there is a risk of this staff member having all the required knowledge. If this member of staff was to leave the Council, the processes for accounting for these transactions would also be lost.</p> | <p>Moderate</p> | <p>It is recommended that a policies and procedures document is completed in respect of the receipting process.</p> | <p>We will accept the recommendation and implement new policies and procedures as soon as possible.</p> |
| <p>Bank Signatories</p> <p>The bank confirmation received from Commonwealth Bank of Australia at 30 June 2018 identified two former employees as account signatories. This was in respect of the Operating Account and the Trust Account.</p> | <p>The Council is exposed to an increased risk of fraud.</p> | <p>Moderate</p> | <p>The bank should be informed immediately of any person/s ceasing to be an authorised signatory to the account.</p> | <p>Both employees have now been removed. All current signatories are aware of the requirement to disable the access of signatories upon termination.</p> |

| Observation | Effect | Risk category | Recommendation | Management Response |
|--|--|-----------------|--|---|
| <p>Stocktake Issues</p> <p>After attending the year-end inventory count, the following issues were noted in respect of the procedures put in place:</p> <ul style="list-style-type: none"> Minor variances were noted in the stock count as a result of sales of items made whilst the count was taking place. The fuel tanks located at Pirtlangimpi were not locked away and there was no security guard on duty. | <p>The issues noted represent a lack of control and a departure from the stock take instructions provided. There is also a risk that the stock listing as at the year-end is incomplete.</p> <p>Furthermore, there is a risk of theft due to a lack of security.</p> | <p>Moderate</p> | <p>It is recommended that proper stocktake instructions are issued to staff prior to the count, and are strictly adhered to.</p> <p>Suggested controls to implement include:</p> <ul style="list-style-type: none"> Perform sample test counts of items already checked in order to verify the correctness of the count. Ensure there is no movement of inventory items occur during the count. If there is, this should be clearly segregated from other areas. <p>Also, it is recommended that the Council should improve physical security to safeguard its assets.</p> | <p>For the financial year 2018-19, we will provide all relevant staff with written stocktake instructions.</p> |
| <p>Vendor Listing Review</p> <p>The Council has a large number of vendors that have been created in its accounting software, most of which are used spasmodically or irregularly for purchases of a large variety of products.</p> <p>We understand there is currently no process in place to review and deactivate old and unused supplier accounts.</p> | <p>The absence of a review of old and unused supplier accounts increases the risk of fraud or error occurring.</p> | <p>Moderate</p> | <p>Supplier accounts should be reviewed periodically to remove old, unused and duplicated vendors from the accounting system.</p> | <p>We will undertake a vendor listing review every six months and document the results.</p> |
| <p>End of Month Process Reviews</p> <p>We understand that there is currently no evidence of review of the monthly balance sheet reconciliations that are prepared as part of the end of month process.</p> | <p>The lack of review over the month end reconciliations increases the risk of errors being processed and the risk that fraudulent transactions may occur.</p> | <p>Moderate</p> | <p>It is recommended that the Council formally documents the responsibilities for the review process over account reconciliations and transactions.</p> | <p>We currently perform a number of month-end reconciliations. We will document the actual reconciliations from hereon.</p> |

| Observation | Effect | Risk category | Recommendation | Management Response |
|--|--|---------------|--|--|
| <p>Accumulation of Annual Leave Balances</p> <p>In the review of the provision for leave, we noted that 16 employees had leave balances in excess of 304 hours (40 days), with the highest leave balance being 434 hours.</p> | <p>Allowing employees to accrue significant leave balances presents the following risks:</p> <ul style="list-style-type: none"> Cash flows may be impacted if employees were to leave the Council unexpectedly. Not taking leave is detrimental to employees' performance and wellbeing. There is the potential that leave may have been taken by an employee but the leave application forms were not submitted. | <p>Low</p> | <p>It is recommended that the Council implement a policy in limiting the amount of leave that can be accrued. The Council should also ensure that employees are provided opportunities to take leave, and encourage employees to take additional leave in the upcoming year to reduce the leave liability.</p> | <p>Management is aware of the issue. We are currently working on a new policy covering staff leave.</p> |
| <p>Annual Leave Forms</p> <p>During our testing of the annual leave balance, we noted one employee from a sample of five where the leave taken could not be verified to an authorised leave form. This represented total unauthorised leave of 45.6 hours for that employee, from total leave taken of 159.6 hours during the year.</p> | <p>This increases the risk of overpayment or underpayment of employee provisions.</p> | <p>Low</p> | <p>All leave taken should be supported by an authorised leave form, which should be securely filed for future reference and auditable trail.</p> | <p>We will ensure that all leave forms are appropriately approved.</p> |
| <p>GST Errors in Grant Recognition</p> <p>During our review of the grant income reconciliation, we noted that some grants had incorrectly been recognised gross of GST.</p> | <p>Incorrect treatment of GST can cause incorrect reporting and payments to the ATO.</p> | <p>Low</p> | <p>We recommend that all transactions are checked to ensure that GST is correctly treated in the accounting system and applied consistently.</p> | <p>Prior to the lodgement of the BAS Statement we have a two step review process to ensure that GST is recorded correctly.</p> |

| Observation | Effect | Risk category | Recommendation | Management Response |
|--|---|---------------|---|--|
| <p>Long Service Leave Calculation</p> <p>We noted that the Council used corporate bond rates in order to discount the Long Service Leave provision, rather than Australian Government bond rates. AASB 119 Employee Benefits requires the use of Australian Government bond rates in the calculation of long service leave in respect of a not-for-profit public sector entity.</p> | <p>The Long Service Leave provision could potentially be misstated.</p> | <p>Low</p> | <p>It is recommended that the Council uses Australian Government bond rates in the calculation of the Long Service Leave provision.</p> | <p>Agree, we will use the Australian Government bond rate in future.</p> |

Appendix D Status of Recommendations previously raised

| Previous Audit Observation | Resolved | Status update |
|--|----------|---|
| <p>Audit Preparedness</p> <p>During the course of our audit the following were noted:</p> <ul style="list-style-type: none"> The financial statements were not available on the day the audit was scheduled to commence. Many of the requested supporting documentation items within the balance sheet and income statement were not provided on the day the audit was scheduled to commence. A number of client adjustments were yet to be accounted for. | Ongoing | The majority of audit requests were provided at the commencement of the audit excluding several client adjustments, grants mater files, unexpended grant liability workings, and draft financial statements. |
| <p>Non-Compliance with Local Government Act and Local Government (Accounting) Regulations</p> <p>The following matters were noted during the conduct of the audit:</p> <ul style="list-style-type: none"> The Council has not prepared nor maintained a long-term financial plan. Plans to develop one are written within section 1.4.2 of the 2016-17 Regional Plan & Budget, although no evidence of this has been observed. This is a departure from Section 126 of the Local Government Act. The audit for the year ended 30 June 2017 was not completed and the audited financial statements submitted to the NT Grants Commission on or before 15 November 2017 as required by Section 16 of the Local Government Act (Accounting) Regulations. The delay in the audit was compounded by the fact that initially requested documents were not provided, nor were the financial statements. This indicates that the Council has failed to maintain proper accounts and records as required by Section 129 of the Local Government Act. The Council has also resultantly failed to distribute its annual report by the required deadline, as required by Section 33 of the Local Government Act (Accounting) Regulations. The Council has not established and maintained a fraud protection plan as required by Section 10 of the Local Government Act (Accounting) Regulations. It was also noted that the financial statements lacked details of rates levied for the financial year, as required by Section 15 of the Local Government (Accounting) Regulations. | Ongoing | A similar issue has been raised during the current financial year. Please refer to Appendix C for further information. |
| <p>Grant Acquittals</p> <p>At the time of writing this letter, no grant acquittals have been completed in relation to the year ending 30 June 2017.</p> | Ongoing | At the time of writing this letter, no grant acquittals have been completed for the year ended 30 June 2018. This has been raised as a management letter point for the current year. Please refer to Appendix C for further information. |

| Previous Audit Observation | Resolved | Status update |
|---|----------|---|
| <p>It was also noted that there are a number of unspent funds for the period ended 30 June 2017 which suggests that either the intended service has not been undertaken, or the quality of intended service is compromised, and an inefficient use of funds provided.</p> <p>Additionally, we were advised by management that there are a number of grants in deficit for the current year.</p> | | |
| <p><i>Valuation of Property, Plant and Equipment</i></p> <p>During audit testing it was noted that no independent valuations have been undertaken over the carrying amounts of prescribed buildings or prescribed infrastructure since 2010. These are currently included within the Council's balance sheet with carrying values of \$16,558,525 and \$2,717,489 respectively, and are disclosed 'at revaluation'.</p> | Resolved | No such issues were raised during the current year. |
| <p><i>Stocktake Issues</i></p> <p>After attending the year-end inventory count, the following issues were noted in respect of the procedures put in place:</p> <ul style="list-style-type: none"> • Minor variances were noted in the stock count as a result of sales of items made whilst the count was taking place. • When performing the count from floor to sheet, two variances arose as a result of fuel stock not being recognised within the counted stock sheets. | Ongoing | Although improvements were noted from the prior year audit, there remain areas of weakness. Please refer to Appendix C for further information. |
| <p><i>Ageing of Rates Balances</i></p> <p>It was noted during the testing of rates receivable that many of these balances were fairly old, with some of these dating as far back as 2010/11.</p> <p>There was however a general provision in place of 80.5% in respect of these balances.</p> | Ongoing | These balances are covered by a general provision for 63.48% of rates receivable. However, these old receivables should either be specifically written off, or have a proper payment plan in place. |
| <p><i>Cash Handling</i></p> <p>During our audit work, we noted that there are currently no formal procedures over cash sales incurred at the community offices. We observed that there is currently no daily reconciliation signed by the Administration Officer or Administration Leader.</p> <p>It was evidenced that during the fortnightly cash deposit process, a reconciliation report is prepared by the Administration Leader. However, this document is also not reviewed by any officers.</p> | Ongoing | Similar issues have been raised during the current financial year. Please refer to Appendix C for further information. |
| <p><i>Vendor Listing Review</i></p> <p>It was noted during our audit, that the current vendor listing within the Council's accounting software has not been formally reviewed by an appropriate officer. The Finance Officer creates new vendors or changes in existing vendor details. All supporting documents relating to the new vendors or changes in vendor details are filed under the vendor profile in the system.</p> | Ongoing | Similar issues have been raised during the current financial year. Please refer to Appendix C for further information. |
| <p><i>Credit Card Reconciliation Not Approved</i></p> <p>During our walkthrough of the credit card process, we noted that the reconciliation as prepared by management was not approved by the CEO. The reconciliation in question was for Cardholder Ms RA De Santis, relating to the month of May 2017.</p> | Resolved | No such issues were raised during the current year. |

| Previous Audit Observation | Resolved | Status update |
|--|----------|--|
| <p><i>Bank Signatories</i></p> <p>The bank confirmation received from Commonwealth Bank at 30 June 2017 identified a former employee as an account signatory.</p> <p>This was in respect of account numbers 590110703594 and 590110708408. The employee in question was Bruce Moller (General Manager – Finance and Compliance).</p> | Ongoing | <p>Similar issues have been raised during the current financial year. Please refer to Appendix C for further information.</p> |
| <p><i>Policy Review</i></p> <p>During our audit work, it was noted that the Accounting Policy has not been reviewed since February 2014.</p> <p>Additionally, we noted that the Financial Delegations Policy is not in line with the Council's current practices. The following exceptions were noted in respect of this:</p> <ul style="list-style-type: none"> • The Compliance and Financial Services Officer is included as a signatory for EFT payments. However, she has been excluded from the list 'To authorise and make payments' within the Policy. • Following the departure of the Finance & Compliance General Manager, the Finance Manager is delegated to authorise purchase requisitions of up to \$50,000. However, his delegation within the Financial Delegation's Policy is limited to just \$10,000. | Resolved | <p>No such issues were raised during the current year.</p> |

Appendix E Accounting Updates

This table lists issued pronouncements that are effective for annual reporting periods ending on or after 30 June 2018.

| | Area | Explanation | Impact on Council |
|------------|---|---|--|
| Accounting | AASB 15 <i>Revenue from Contracts with Customers &</i> | AASB 15 <i>Revenue with Contracts with Customers</i> and AASB 1058 <i>Income for Not-for-Profit Entities</i> are effective for annual reporting periods beginning on or after 1 January 2019 and will be reported in the Council's financial statements for the first time in 2019/20, unless the Council chooses to early adopt these standards. | Adoption of this new standard is expected to have a financial impact on the Council's grant income recognition. |
| | AASB 1058 <i>Income for Not-for-Profit Entities</i> | Under these new standards, revenue from grants and donations will be recognised when any associated performance obligation to provide goods or services is satisfied, and not immediately upon receipt as currently occurs. Consequently, more liabilities are expected to be recognised in the balance sheet after adoption of this standard. | |
| Accounting | AASB 16 <i>Leases</i> | AASB 16 <i>Leases</i> is effective for annual periods beginning on or after 1 January 2019. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset. AASB 16 provides a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments. Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability. The standard provides for two approaches to transition: (a) Modified retrospective - including two alternatives in measuring the associated asset, or (b) Full retrospective. Lessors will continue to account for leases as either operating or finance leases, consistent with current practice. For operating leases, the underlying asset remains on the lessor's balance sheet. For finance leases, the underlying asset is de-recognised and a lease receivable is recognised. | The Council does not currently have any contracts with lease terms greater than 12 months. When this standard is adopted, it is expected that the Council will not have any lease agreements greater than 12 months. Accordingly, adoption of this new standard is not expected to have a material financial impact to the Council. Should the Council enter into leases for terms longer than 12 months the new accounting treatment required by the new standard will need to be applied. |
| Regulatory | Changes in the Council's regulators, mandates or requirements | There are no expected changes in the Council's regulators mandates or requirements in the foreseeable future. | The Council needs to continue to monitor their regulators' requirements to ensure that they address the relevant requirements. |

Appendix F Other Required Communications

Auditing Standards require us to report to you certain matters that are not otherwise detailed in this report.

| Matter | How matter was addressed |
|--|---|
| Material uncertainties and going concern | We have included an Emphasis of Matter paragraph in our audit opinion, which draws attention to the material uncertainty existing over the Council's ability to continue as a going concern for 12 months from the date of our report. |
| Disagreements with management | During our audit we received full cooperation from management and had no unresolved disagreements over the application of accounting principles, the scope of our audit or disclosures to be included in the financial statements. |
| Compliance with laws and regulations | We have not identified any instances of material non-compliance with laws and regulations, other than those documented within Appendix C to this report. |
| Fraud and illegal acts | <p>We have made enquires of management regarding:</p> <ul style="list-style-type: none"> • Knowledge of any fraud or suspected fraud affecting the Council involving management, employees who have significant roles in internal control; or others where fraud could have a material effect on the financial report • Knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial information. <p>We are not aware of any fraud or illegal acts during our audit.</p> |
| Expected modifications to audit report | We anticipate to issue a qualified audit report on the financial statements for the year ended 30 June 2018 subject to the satisfactory resolution of the outstanding matters detailed in this report. |
| Review of Council minutes | We have completed a review of the minutes of the Council meetings held during the year. Based on that review we have not identified any financial matters that would result in a significant effect on the period results that have not been reflected in the financial statements. |
| Independence | <p>We confirm that we have complied with the independence rules under APES 110 <i>Code of Ethics for Professional Accountants</i>, and in our professional judgment, the engagement team and the Firm are independent.</p> <p>We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that the Council considers the facts of which you are aware of and come to a view. Should you have any specific matters that you wish to discuss, please contact us.</p> |

Appendix G Independence

Merit Partners has policies and procedures that instil professional values as part of Firm culture and ensure the highest standards of objectivity, independence and integrity are maintained. Listed below are some of the key policies and processes in place within Merit Partners for maintaining objectivity and independence:

| | |
|----------------------------|---|
| Financial Interests | <p>Our Partners and client facing (technical) staff are prohibited from investing in any audit client.</p> <p>Our Partners and staff are required to confirm their compliance each year with our Firm's independence policies.</p> |
| Training | <p>Our Partners and staff are required to undergo regular mandatory training on our independence and ethical policies and processes.</p> |
| Consultation | <p>The Firm requires that the audit team consult with a second independent partner on complex accounting and auditing matters.</p> |
| Non-audit Services | <p>Our audit engagement partners must approve any non-audit services offered to their clients. This allows them to:</p> <ul style="list-style-type: none"> ▶ ensure the objectives of the proposed engagement are not inconsistent with the objectives of the audit of the financial statement; ▶ identify and assess any related threats to our objectivity; and ▶ assess the effectiveness of available safeguards to eliminate such threats or reduce them to an acceptable level. <p>Where no satisfactory safeguards exist we do not carry out the non-audit service.</p> |
| Ethics | <p>Our code of conduct provides an ethical framework on which we base our decisions and our actions—as individuals and as members of Merit Partners.</p> |
| Financial Interests | <p>Our Partners and client facing (technical) staff are prohibited from investing in any audit client.</p> <p>Our partners and staff are required to confirm their compliance each year with our Firm's independence policies.</p> |

GENERAL BUSINESS

| | |
|--------------------|--|
| ITEM NUMBER | 3.4 |
| TITLE | Revised Budget 2018/19 |
| REFERENCE | 223422 |
| AUTHOR | Shane Whitten, Chief Financial Officer |



This report is to provide Council members with an update on financial performance for the half year ended 31 December 2018, and to provide some guidance on Council's expected financial performance for the year ended 30 June 2019.

BACKGROUND**Budget Review – Half year ended 31 December 2018**

There are three levels in our Budget where our financial performance is measured, they are:

1. Net Surplus / (Deficit) – this is the number that appears in the annual report
2. Net Cash Surplus/ (Deficit) – this is or cash surplus or deficit any individual year, after asset purchases and depreciation (non-cash)
3. Total Surplus / (Deficit) – this is our Net Cash Surplus / (Deficit) as above (2), but includes all of our under spent cash from prior years.

A review of the YTD performance to 31 December 2018 has been undertaken by the Chief Financial Officer is summarised below.

| <u>Half Year Ended December 2018</u> | Budget | Actual | Variance |
|--------------------------------------|-----------|-----------|-----------|
| Net Surplus / (Deficit) | (406,930) | 1,739,537 | 2,146,467 |
| Net Cash Surplus / (Deficit) | 178,130 | 2,459,172 | 2,281,042 |
| Total Surplus / (Deficit) | 4,184,659 | 5,858,234 | 1,673,575 |

For the half year ended 31 December 2018, our revenue is \$1,482,231 higher than budget and is summarised below.

| Revenue | Budget | Actual | Variance | Comments |
|----------------------------|------------------|------------------|------------------|---|
| General rates and charges | 1,691,825 | 1,735,421 | 43,596 | Higher than budget estimates |
| Inter-Island Ferry Service | 87,500 | 60,111 | (27,389) | Lower than budget estimates |
| Property Leases | 118,700 | 107,443 | (11,257) | Some leases not invoiced, currently being rectified |
| Equipment Hire | 35,024 | 8,554 | (26,470) | Many internal allocations not processed |
| Community Safety | 526,813 | 426,813 | (100,000) | As agreed with PMC |
| Additional NTG Funding | 0 | 1,000,000 | 1,000,000 | As agreed with NTG |
| Remote Sport & Rec | 127,000 | 0 | (127,000) | Funding yet to be received |
| Library Funding | 70,839 | 0 | (70,839) | Funding yet to be received |
| Local Authority Projects | 118,360 | 359,880 | 241,520 | Higher than budget estimates |
| Youth Diversion Funding | 56,335 | 112,669 | 56,334 | Full year already received |
| Picker Road Recovery | 0 | 450,294 | 450,294 | Cost recovery not included in budget |
| Transit Accommodation | 38,750 | 121,571 | 82,821 | Higher than budget estimates |
| Other items | | | (29,379) | Covers many items |
| Total | 7,098,974 | 8,581,205 | 1,482,231 | |

For the half year ended 31 December 2018, our expenses are \$664,235 lower than budget and is summarised below.

| Expenses | Budget | Actual | Variance | Comments |
|--------------------------|------------------|------------------|----------------|--|
| <u>Employee Costs</u> | | | | |
| Finance | 194,738 | 82,124 | 112,614 | |
| Town services | 699,413 | 567,426 | 131,987 | |
| Civil works | 183,323 | 117,470 | 65,853 | |
| Community safety | 243,082 | 175,604 | 67,478 | |
| FaFT Program | 59,102 | 10,080 | 49,022 | |
| Workshops | 143,757 | 93,941 | 49,816 | |
| Jirnani Daycare | 120,827 | 79,097 | 41,730 | |
| Out School Hours Care | 60,487 | 25,453 | 35,034 | |
| Youth diversion | 50,249 | 18,460 | 31,789 | |
| Remote Sport & Rec | 31,269 | 9,993 | 21,276 | |
| Other | 2,199,444 | 2,194,636 | 4,808 | Mainly relates to unfilled positions |
| Contractor Finance | 250 | 82,653 | (82,403) | Offset by lower salary cost above |
| Consulting Fees | 118,400 | 368,658 | (250,258) | IT & Finance, Mark Blackburn (Offset by grant) |
| Inventory materials | 203,192 | 119,606 | 83,586 | Mainly lower purchases by Workshop |
| General materials | 599,043 | 209,645 | 389,398 | Mainly related to Local Authority projects |
| Fuel costs | 191,350 | 241,110 | (49,760) | Mainly vehicles |
| Insurance | 138,486 | 163,075 | (24,589) | Higher than budget estimate |
| Training courses | 39,000 | 12,222 | 26,778 | Budget allowance not yet spent |
| Audit fees | 30,000 | 127,041 | (97,041) | 2016, 2017 and 2018 acquittal audits |
| Mayor, Councillor and LA | 216,371 | 165,975 | 50,396 | Lower than budget estimates |
| All other expenses | 1,984,120 | 1,977,399 | 6,721 | Covers many items |
| Total | 7,505,903 | 6,841,668 | 664,235 | |

Budget Review – Year ended 30 June 2019

A review of the 2018/2019 budget has also been undertaken by the Chief Financial Officer and is summarised below.

| <u>Year Ended June 2019</u> | Budget | Forecast | Variance |
|------------------------------|-------------|-------------|-----------|
| Net Surplus / (Deficit) | (5,271,401) | (3,466,722) | 1,804,679 |
| Net Cash Surplus / (Deficit) | (4,101,281) | (2,878,190) | 1,223,091 |
| Total Surplus / (Deficit) | 7,639 | 623,263 | 615,624 |

Further work needs to be undertaken on the revised Budget (Forecast) to accurately estimate the implications of further changes and spending initiatives in the areas of tied funding.

Revenue

Our revenue is currently \$1,482,231 higher than Budget and is expected to finish the year \$1,175,703 higher than Budget.

The reduction is explained by:

- A further \$200,000 of revenue foregone in Community Safety
- A further \$26,000 of revenue foregone in Pirlangimpi School Meals
- Post Office revenue reduction of \$53,000
- Revised airport maintenance contract \$10,000

Expenses

Our expenses are currently \$664,235 lower than budget and are expected to finish the year \$628,976 lower than Budget. This is broadly in line with our current spending position, so assumes we will spend in accordance with Budget in the second half of the year.

I believe this to be conservative as our Budget assumes that a number of grant liabilities carried forward are also spent in full. Whilst I am still reviewing a number of programs, I think there will be several programs where we will again underspend, as the changes we are proposing will take some time to bear fruit, especially as we estimate the increased costs and seek variations to contracts expand our spending.

Capital Expenses

We are currently under Budget by \$148,587 for capital expenses, but are expected to finish the year \$567,576 over Budget as we spend tied grant monies on equipment (which was not included in the Budget) and Roads to Recovery (\$325,000).

Accumulated Surplus / Deficit

This represents our level of restricted cash on hand to be used for specific future obligations as governed by the relevant contracts and agreements.

Further work is required to accurately estimate this position through to June 2019, which will involve the Management team.

MONTHLY UPDATES

From now on the monthly Profit and Loss statement provided to Council will include a Forecast column. This will enable Council and the CEO to directly track the financial impact of changes implemented.

RECOMMENDATION:

That the Committee receive and note this report for information.

ATTACHMENTS:

- 1 Profit and Loss Dec 2018 final.pdf



Profit and Loss
As at 31-Dec-2018

| Description | Actuals YTD | Budget YTD | Variance | % | Original Budget | Revised Budget | Variance to Original Budget |
|--|------------------|------------------|------------------|---------------|--------------------|--------------------|-----------------------------|
| Revenue | 8,581,205 | 7,098,974 | 1,482,231 | 21% | 11,929,116 | 13,104,819 | 1,175,703 |
| 61 - Income Rates and Charges | 2,263,880 | 2,217,604 | 46,276 | 2% | 2,217,779 | 2,264,055 | 46,276 |
| 62 - Income Council Fees and Charges | 593,230 | 682,769 | (89,540) | (13%) | 1,375,229 | 1,209,389 | (165,840) |
| 63 - Income Operating Grants Subsidies | 4,607,811 | 3,480,355 | 1,127,456 | 32% | 6,982,843 | 7,884,071 | 901,228 |
| 64 - Income Investments | 20,434 | 14,500 | 5,933 | 41% | 29,000 | 34,933 | 5,933 |
| 65 - Income Contributions Donations | 1,400 | 1,500 | (100) | (7%) | 3,000 | 2,900 | (100) |
| 66 - Income Reimbursements and Others | 8,298 | 11,368 | (3,070) | (27%) | 22,736 | 19,666 | (3,070) |
| 67 - Income Agency and Commercial Services | 1,062,108 | 690,878 | 371,230 | 54% | 1,298,529 | 1,665,759 | 367,230 |
| 69 - Inc Sale of Assets | 24,045 | 0 | 24,045 | 100% | 0 | 24,045 | 24,045 |
| Expenditure | 6,841,668 | 7,505,903 | 664,235 | 9% | 17,200,517 | 16,571,541 | 628,976 |
| 71 - Employee Expenses | 3,374,285 | 3,985,691 | 611,407 | 15% | 8,116,033 | 7,527,944 | 588,089 |
| 72 - Contract and Material Expenses | 1,607,473 | 1,685,148 | 77,675 | 5% | 3,476,436 | 3,407,989 | 68,447 |
| 73 - Finance Expenses | 1,984 | 3,065 | 1,081 | 35% | 6,090 | 5,009 | 1,081 |
| 74 - Communication Expenses | 181,277 | 186,719 | 5,441 | 3% | 374,804 | 369,738 | 5,066 |
| 75 - Asset Expense | 1,034,006 | 1,024,620 | 9,386 | (1%) | 2,049,241 | 2,058,627 | (9,386) |
| 79 - Miscellaneous Expenses | 642,643 | 620,659 | 21,983 | (4%) | 3,177,912 | 3,202,234 | (24,322) |
| Allocations | 0 | (1) | 1 | 100% | (0) | 0 | 1 |
| 9x - Allocation Income | 2,043,880 | 2,917,967 | (874,087) | (30%) | 5,835,935 | 4,961,848 | (874,087) |
| 9x - Allocation Expense | 2,043,880 | 2,917,968 | 874,088 | 30% | 5,835,935 | 4,961,848 | 874,088 |
| Net Surplus/(Deficit) | 1,739,537 | (406,930) | 2,146,466 | 527% | (5,271,401) | (3,466,722) | 1,804,679 |
| Capital Expense | 290,723 | 439,311 | 148,587 | 34% | 878,621 | 1,446,197 | (567,576) |
| 33 - WIP Assets | 290,723 | 439,311 | 148,587 | 34% | 878,621 | 1,446,197 | (567,576) |
| Add Back Depreciation | 1,010,359 | 1,024,370 | (14,012) | (1%) | 2,048,741 | 2,034,729 | 14,012 |
| 75 - Asset Expense | 1,010,359 | 1,024,370 | (14,012) | (1%) | 2,048,741 | 2,034,729 | 14,012 |
| Net Cash Surplus/(Deficit) | 2,459,172 | 178,130 | 2,281,042 | 1,281% | (4,101,281) | (2,878,190) | 1,223,091 |
| Grants Carried Forward | 3,399,062 | 4,006,528 | (607,466) | (15%) | 4,108,920 | 3,501,453 | (607,466) |
| 51 - Accumulated Surplus Deficit | 3,399,062 | 4,006,528 | (607,466) | (15%) | 4,108,920 | 3,501,453 | (607,466) |
| Total Surplus/(Deficit) | 5,858,234 | 4,184,659 | 1,673,576 | 40% | 7,639 | 623,263 | 615,625 |
| Total Surplus/(Deficit) by Funding Type | | | | | | | |
| TIED | 3,398,865 | 2,888,257 | 510,608 | 18% | (176,250) | (377,455) | (201,205) |
| UNITED | 2,459,370 | 1,296,402 | 1,162,968 | 90% | 183,888 | 1,000,718 | 816,830 |

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GENERAL BUSINESS

| | |
|--------------------|--|
| ITEM NUMBER | 3.5 |
| TITLE | Risk Management Policy |
| REFERENCE | 223399 |
| AUTHOR | Maina Brown, Governance & Compliance Manager |



This report provides members with an approved Risk Management Policy for information and discussion.

BACKGROUND

Chairperson will be discussing this policy with members in relation to the opportunities for an enterprise wide approach to risk management.

Attached to this report a Risk Management Policy that Council approved at its Ordinary Council meeting held on 28 February 2018 for committee members information.

ISSUES/OPTIONS/CONSEQUENCES

Nil

CONSULTATION & TIMING

Nil

RECOMMENDATION:

That the Committee receive and note this report for information.

ATTACHMENTS:

- 1 Risk Management Policy.pdf



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| | |
|------------------------|-------------------------------|
| Title: | Risk Management Policy |
| Policy No: | 011 |
| Adopted By: | Council |
| Next Review Date: | May 2020 |
| Responsibility: | Chief Executive Officer |
| Magiq Document Number: | 215125 |

| Version | Decision Number | Adoption Date | History |
|---------|-----------------------------|------------------|----------------|
| 1 | Resolution 10 of 27-05-2015 | 27 May 2015 | Doc ID: 206409 |
| 2 | Resolution 6 of 28-02-2018 | 28 February 2018 | Doc ID: 215125 |

1. Objective

To set out why, how and who will manage Tiwi Islands Regional Council's (TIRC) risks and require that risk management will be imbedded in Council policies, procedures and its decisions making.

2. Key Terms

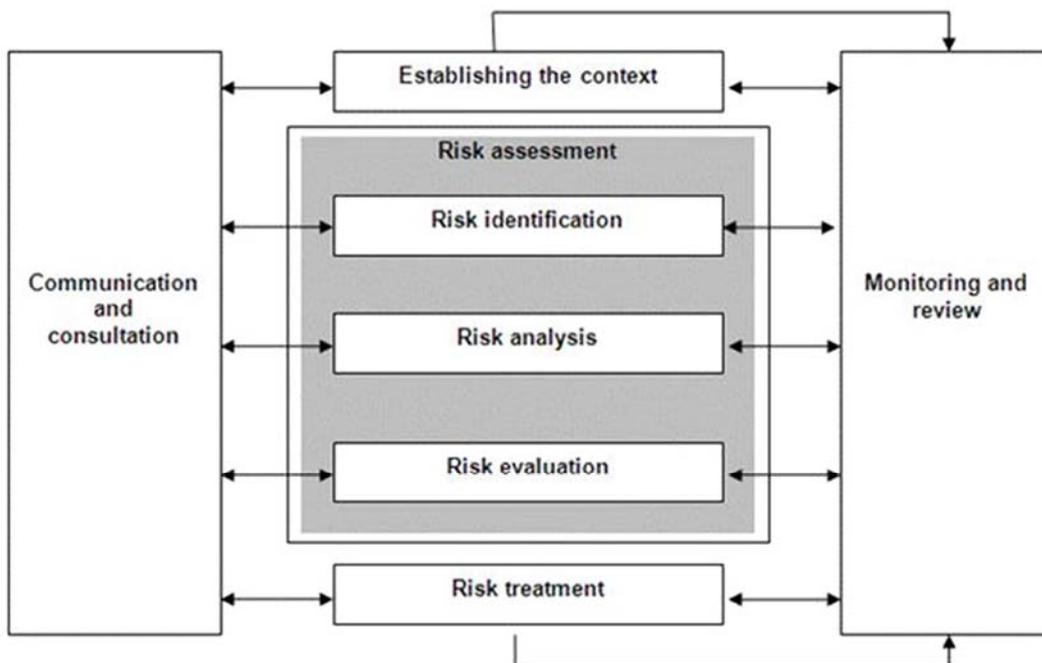
| | |
|------------------------|---|
| Risk Management ('RM') | The coordinated activities to direct and control Council with regard to risk. Activities are directed towards the effective management of culture; processes and structures in order to optimise potential opportunities and either eliminate, minimise or reduce adverse effects within acceptable legal and policy settings. |
| RM Framework | A set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout Council. |
| RM Plan | A scheme within the RM framework specifying the approach, management components and resources to be applied to the management of risk. It should include agreement on matters such as risk appetite, risk tolerance, benchmarks and planned activities to development RM over the immediate and medium term. It can be incorporated into a wider change or transition plan. |
| RM Standard' | The current RM standard, AS/NZ ISO 31000 (2009) |
| Hazard | A source or a situation with potential harm in terms of injury or illness, damage to property or the environment, or a combination of these. |
| Risk | The chance of something happening (effect of uncertainty) that could impact on objectives or expectations – whether negative or positive. Risk is often characterised by reference to potential events and consequences, or a combination of these and the associated likelihood of an occurrence. |
| Incident | Unplanned event resulting in, or having the potential for injury, ill health, damage or other loss. |
| Secondary Risk | The risk associated with risk treatment. Similar to 'side effects', it needs to be |



Tiwi Islands Regional Council

| | |
|----------------------|---|
| | considered as part of risk treatment options before treatment is decided. |
| RM Process | The systematic application of management policies, procedures and practices, to the activities of establishing context, identifying, analysing, evaluating, treating, monitoring and communicating risk. |
| Risk Assessment (RA) | That part of the RM process which identifies, analyses and evaluates risk. |
| Risk Register (RR) | A collection of information with regard to risk. It may or may not include all information required in the full RM process. Best used as a consolidated summary of RM information and for classifying risks according to type, level and actions. A useful tool for review by management. |
| SMT | Senior Management Team |
| MFL | Maximum Foreseeable Losses |

The overall linkages in assessing and managing risk are shown in the diagram below.





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3. The rationale for managing our risks

Council operates in an uncertain environment. In order to reduce uncertainty we will develop and review our Risk Management Framework to improve performance and realisation of objectives and compliance.

This will be done by identifying key risks then determine whether it is reasonably practicable to eliminate these risks, or otherwise reduce, share or accept them at acceptable levels.

The TIRC RM Framework will consist of the elements that support the RM process across Council. Ultimately it will also support our mission and values, improve our ability to meet strategic, operational and financial objectives, seek opportunities as they arise and make Council more resilient to sudden and unforeseen threats.

Council acknowledges that it needs risks to operate, but in doing so it also must assess which are positive, tolerable and unacceptable. Council also recognises the supporting and interrelationships between good governance, compliance and risk management. Most key objectives are set under governance processes and governance has its own risks. Managing these is consistent with achieving our broadly defined role, functions and objectives described in sections 11, 12 and 13 of the *NT Local Government Act*.

4. Links between Council objectives, policies and procedures and this policy

Council will manage risks associated with policies, plans, executive decisions and laws.

Risk levels will be determined by establishing criteria to define risk and then assessing the potential consequences and likelihood of the inability to meet our objectives. Descriptions of risk will refer to formal (written) and / or implied (assumed) objectives.

Council and the SMT will review these objectives and the policies and procedures designed to achieve them. Policies and procedures will be a major part of risk 'controls' or treatments to moderate risk. Others are the appropriateness of organisational structures and our culture.

As policies, functions and laws are added or changed; risks associated with them will be reviewed and altered as required.

5. Accountabilities, Approach and Responsibilities for Risk

Every person is a 'risk owner' to the extent that they direct or are held responsible for the planning, designing and delivery of operations or has some authorised and material influence over council matters (such as a contractor).

Risk and hazard assessments are required continuously prior to activities or commitments, including contractual commitments, and any other time if material changes in circumstances occur. Assessments may not be required for routine activities where controls are fully understood, practiced and effective. Assessments could range from 'Take -5' and 'tool box' discussions to formal and complex reports.



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Approach

The approach to be used by all risk owners is to:

- i. Contribute to RM development.

Participate in RM processes, undertake review and compliance with Council policies and procedures.

- ii. Communicate and Consult (also see section 9).

The best way to engage stakeholders and obtain information about matters important to them is to do this with a wide range of relevant internal and external stakeholders. Consultation requires the active seeking of views from relevant parties and in the case of workplace safety, it is a statutory requirement.

- iii. Compliance.

Capture key legislative and industry codes of practice, manufacturer's instructions and recognised best practice and the like.

Eliminate or reduce risk to 'As Low As Reasonably Practicable' (ALARP).

If we cannot eliminate risk, then efforts to manage risks are to be in accordance with the concept of reducing risk to ALARP and is tolerated according to Council risk criteria. The exception to ALARP is where strict regulatory or Council policy conformance requires a more expensive or difficult treatment.

Secondary and aggregated risk will form part of Risk Assessment's before ALARP and treatment decisions are made.

- iv. Safety first.

Apply a 'safety first' approach to workplace and public safety risks by eliminating them, or if that is not possible, to reduce them to ALARP and meeting any legal requirements after undertaking a risk assessment.

- v. Risk Management principles.

Management and supervisors will be taught to understand and apply the eleven RM principles in the Standard. The first and key principle is that RM should be designed to add value to Council. Considering and seeking reasonably available information prior to analysing and deciding on risk treatments is another. In all, the principles will be used as guidance to address risk issues and to review RM performance.

- vi. Determining causation.

We will examine potential and actual causes in order to choose the most appropriate controls to eliminate, minimise, detect and respond to adverse situations. Causation will



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be examined according to a range of risk factors, including immediate and root causes in controls and management failures. More complex causation may need to consider 'chain of event' control points and human factors.

'Individual failures', if any, will only be considered after all other factors are considered.

vii. Ability to change or moderate risk.

Council will seek agreement or consensus on what can be changed, changed over time, may be influenced and where it has little or no ability or capability to change. For the later, we will either stop the activity or formally tolerate the risk.

viii. Additional consideration is to be given to risks that are considered:

- o high consequence (catastrophic), even if an apparently low likelihood
- o high frequency (chronic), even if considered of low consequence;
- o major or extreme and dependent upon a single or few critical controls; and
- o risk 'groups' with controls that are inter- dependent or exist cross-functionally between managerial and operating departments.

ix. Council will develop and maintain a RM Framework / Guide and Plan.

x. Financial risk

General

Consideration will be given to all risks of potential unplanned financial losses or gains. This includes risk areas not normally categorised as 'financial risk' (such as safety), but which still may involve a financial impact (such as fines and business interruption). Financial loss or benefits will extend to unnecessary waste, increased costs, inefficiency and lost opportunities.

Potential material variations to planned financial outcomes will have controls in place to limit losses and enhance opportunities. Otherwise, consideration will be given to changing or stopping the activity.

Risk Adjusted Delegated Authorities

If risk assessments indicate that maximum foreseeable losses (MFL) could exceed delegated limits for the defined activity or contract sum, then approval for the obligation or service will be escalated to the appropriate higher level based on the net maximum foreseeable losses. In determining risk adjusted delegated authorities, the net MFL exposure will take into account any strong security in Council's favour and its own insurances.

Typically, risk adjusted delegated authorities will arise when there are significant contractual indemnities, guarantees or damages in favour of other parties, or Council financial exposures found in legislation and civil liabilities.



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Fraud

In accordance with the Local Government Act, Council will have a Fraud Management Plan. An effective Plan will include strategies to reasonably prevent, detect and respond to key areas of potential fraud. The plan will extend to non-financial fraud (such as false identity or qualifications), although they too may also lead to adverse financial consequences.

Financing Losses

All risks with the potential for large or chronic (ongoing) losses will require acceptance of controls needed to finance all or the greater part of those losses. Typically this includes insurance, but may also involve security, guarantees and other loss sharing arrangements. Otherwise, formal internal acceptance is required to self-fund losses.

Key Roles:

- Council: Elected members serving the interests of the region according to a Council Plan approved by them, defining core and non - core service, oversight of strategic and major risks and priorities and how they will be delivered.
- Local Authorities: Obligations from delegated authority, obtaining information and providing advice to Council from the community level.
- Senior Management Team: Operational and financial planning and report requirements, implementation, human resource selection, defining roles, division budgetary controls and management decision making processes. Development of strategic and major risk management, the RM Framework, priorities and how RM will be delivered.
- Managers: The way work is planned and performed on a day to day basis with respect to achieving objectives and managing risk.
- Specialists: Supervisors and senior managers who have certain skills and experience in training, work methods, compliance and delivery of safe and effective services for which others are reliant. They may have additional internal and legal responsibilities;
- Employees (generally): According to position descriptions, delegated authorities, training and experience and adequacy of resources provided to them from management.
- Contractors: Delivery of special skills, their staff and sub - contractors and to do so safely for all persons potentially impacted by their activities.

6. How conflicting and cross functional objectives and risks will be dealt with

Council recognises that from time to time working towards targets with agreed processes may create conflict between objectives and may arise across service functions. As a result priorities may need review, 'trade-offs' considered and sometimes even objectives require revision.

Examples include:



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- Target completion time versus non – compliance or unacceptable health and safety risk;
- Using lower cost and quality service / materials versus long-term performance and life-cycle cost;
- Undertaking services that are unfunded / not fully funded versus opportunity cost – i.e. what value was sacrificed by not apply the same resources elsewhere;
- Current budget period cost versus long – term cost financial impact and value;
- Accepting a tolerable risk in one function or location but aggregation of the same risk 'Council – wide' across all functions or locations may not be acceptable or requires a different treatment strategy.
- Meeting a service level performance requirement which will, or is likely to lead, to greater loss, damage or failure of another objective or creates adverse reputation to Council.

The SMT will identify common or linked risks and where interdependencies exist, aggregate them in order to determine the full impact on Council. Risk strategies will include consideration of Council-wide treatments and efficiencies.

Employees will make reasonable efforts to inform their supervisor / managers of actual or potential conflicts in objectives in which they are reasonably aware. This may apply within their work area or across functions - between their work area and other work areas.

Managers will identify or confirm potential conflicting objectives and cross functional risks. then consider what is in the best interests of Council. If uncertain or other priorities apply, managers will escalate the matter to their own manager.

Managers of services will not be disadvantaged if they consciously forgo or delay their own service / function objectives in circumstance where wider consultation requires meeting a greater 'Council – wide' imperative to manage other or higher risk issues and priorities.

7. Commitment to make the necessary resources available

The SMT is ultimately responsible for ensuring that resources to provide capacity and expertise to develop RM and control / risk treatment initiatives will be fit for purpose, compliant and properly applied and maintained.

This includes equipment, technology, services, time, training, education etc. The commitment to make resources available applies at two levels. This is to develop, support, implement and review:

- The RM framework, and
- Specific risk contexts, assessments, treatments, reporting and consultation.



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Recommendations to the SMT for the amount and nature of resources, including advice, will come from the *joint consideration* by specialist managers and supervisors (e.g. procurement, technical and safety officers). This will assist in determining appropriate design and control options and include consideration of compliance, availability, quantity, quality, safety, impact on the public and cost.

8. The way in which RM performance will be measured and reported

RM performance and reporting will be key and transparent features of effective RM for Council.

Performance Measures may include:

- i. The proportion of service areas that have risk profiles of key risks and / or hazards established, and kept up to date,
- ii. The proportion of each service area profile's that have approved decisions (i.e. accept or treat) and for those requiring treatment, have action plans.
- iii. The status of risks undergoing treatment against plans according to schedule, cost and quality.
- iv. The proportion and number of completed treatment plans since the last reporting period.
- v. The number of significant incidents in which the hazard / risk has not been formally identified.
- vi. The number and nature of significant opportunities lost, or near lost.
- vii. Qualitative or quantitative benefits / costs arising from current and past treatments: e.g. Lessons learned and changes in effectiveness, value, incidents / accidents, community response etc.
- viii. The progress of the current RM plan for the development, implementation, improvement and review of Council's RM Framework
- ix. Assurance.

RM assurance will be derived from a number of internal and external processes. Approved recommendations will be added to the action / treatment plans to improve risks and the supporting RM framework. Written reasons will be given by management for RM recommendations that are not accepted, modified or replaced by other strategies.

Assurance will involve providing findings, evidence, conclusions and recommendations in relation to:

- The achievement or otherwise of meeting compliance and performance requirements, and whether risk was adequately considered in the efforts to meet them;



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- Identification of major non – conformances and the implications for risk;
- Whether treatments and required improvements were:
 - implemented in the scheduled time, and
 - meet expected outcomes including eliminating or reducing risk to a tolerable level
- Services / departments considered and took advantage of reasonable opportunities when they arose;
- Whether lessons are learned from losses, incidents or even exceeding objectives, and as a consequence, were appropriate responses or treatments considered and implemented.

Assurance of the RM framework will include a 'three lines of defence' ('two lines' if no IA) model:

1. External Audit- financial and other as required (e.g. accreditation, investigations)
 2. Internal Audit: *Risk based IA* program (only if Internal Audit exists).
 3. Management Reviews. Internal or outsourced review of compliance, performance and risks for internal or external functions and services.(Must have evidence of this if IA does not exist)
- x. Customer / community feedback from compliments, complaints, surveys, discussions etc.

Reporting Requirements

- i. Immediate (to next level of management unless other procedures say otherwise):
 - a. 'New' material risks, including:
 - i. new risks
 - ii. existing but until recently not identified or recorded risks, or
 - iii. increase in the risk level to major or extreme.
 - b. Hazards, risk 'alerts' from external authorities or manufacturers, control failures,
 - c. Accidents, incidents and investigations (including matters that have the potential to cause significant harm or damage),
 - d. Where it is known a significant objective / expectation can no longer be achieved,
 - e. Outcomes of latest tests / assurance reports,
 - f. Any crisis and key service interruption to service continuity or potential for interruption.

- ii. Monthly – Operating units to SMT

Summary of:

- a. Matters arising from current month's activities (including i. above)
- b. Progress of significant ongoing risk assessments and treatments
- c. Compliance: advise any material non- compliance and new or expected changes in compliance requirements impacting services or Council.



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- iii. Quarterly - SMT
 - a. Progress towards achievement of strategic objectives and major risk treatments
 - b. Progress of other major risks treatment and emerging risks (i.e. not fully understood)
- iv. Yearly
 - a. To Council:
 - i. The SMT will provide a progress report against the past year's RM plan, and table the Risk Register..
 - ii. Internal Audit (if IA exists): Issue an assurance statement on the status of RM and its development according to the RM Plan.
 - iii. Financial Exposures. Confirmation of:
 - Insurance program / scheme renewals.
 - Fraud management status,
 - Exposures above \$XX (defined as aggregated and triggered by a single event)
 - Required financial security / guarantees in Council's favour
 - Guarantees / contingent liabilities by Council provided to others.
 - New / increased exposures against maximum foreseeable losses,
 - Implications of asset valuations obtained / required.
 - b. Annual Report

Will include a section on Council's RM development, major RM issues (past year and expected for the next 3 years) and achievements against RM Plan over the past year.
- v. Other Reports – as required to by external regulators and authorities.

9. Consultation and Communication

Council recognises and the Standard requires effective communication and active consultation as essential for good RM. It is a continual and iterative processes conducted to provide, share or obtain, and to engage in dialogue with stakeholders regarding the management of risk. It is important as an influence to decision-making.

The SMT will, as part of the RM Plan, develop / review the Consultation and Communication plan with internal and external stakeholders.

The plan will be formulated following discussions and negotiations concerning the views and expectations of persons and entities impacted by Council activities, and also how other persons and entities could impact Council. This is will ensure that the views of stakeholders are taken into account, ensure all parties are better informed of material needs and issues, and have realistic expectations given limited resources, other priorities and associated risks.

The resulting plan will provide an opportunity and evidence how objectives are set and risks associated with them can be better managed.



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10. Review and improvement of this policy and the RM Framework

The SMT will review the effectiveness, value creation, protection and resilience afforded to Council arising out of the RM Framework. This will be done no less than every three (3) years and earlier if circumstances determine a need for an earlier review.

11. Key Related Policies and Procedures

Most other policies and procedures create objectives (and therefore risk) and controls to manage them. Many need to have statements that describe individual risk tolerance criteria and risk' appetite' covering Council – wide exposures. Some key policies and procedures related to Council RM are: **(add or delete as required):**

- Corporate Plan
- Delegations
- Governance – meetings, conflicts of interest etc.
- Communications and Consultation
- Human Resources
- Procurement & Contract management
- Compliance: legislative, contracts (funding and others), negligence
- Fraud Management Plan (required in NT for Councils)
- Infrastructure and Capital Development
- Workplace Health & Safety and Injury Management
- ICT Disaster Recovery
- Disaster Management and / or Business Continuity
- Emergency evacuation plans
- Insurance program
- Asset Management
- Operational Induction programs
-

Review as needed or in 3 years whichever occurs first.

GENERAL BUSINESS

| | |
|--------------------|--|
| ITEM NUMBER | 3.6 |
| TITLE | Population of Audit and Risk Work Plan |
| REFERENCE | 223395 |
| AUTHOR | Maina Brown, Governance & Compliance Manager |



This report is put before the committee members for discussions.

BACKGROUND

Chairperson will discuss further with members and what it is required to achieve this work plan as an ongoing document and to be included in the TIRC Annual Plan.

A copy of the updated Audit and Risk Management work plan is attached to this report for discussion and input from members.

ISSUES/OPTIONS/CONSEQUENCES

Nil

CONSULTATION & TIMING

Nil

RECOMMENDATION:

That the Committee notes and receive this report for information, accepts these discussions and update the Audit and Risk Management Work Plan as required.

ATTACHMENTS:

- 1 Audit and Risk Management Committee Work Plan 18-19.pdf



Audit & Risk Management Committee – Work Plan/Program 2018 – 2019

| Activity | Timeframe | | Responsible Officer | Current Status / Outcomes / benefits Achieved | Date Completed | Follow-up Action |
|----------------------------|----------------|----------|---------------------|---|-----------------|---|
| | Last Completed | Next Due | | | | |
| 1 Meetings | | | | | | |
| 1.1 Terms of Reference | Feb 2017 | Feb 2018 | | Reviewed by Audit Committee, February 2017 and recommended changes. | 28 Feb 17 | |
| Amended | Nov 2017 | | | Amended ToR went to Council adding Finance Committee duties to that of the ARMC | 28 Nov 2017 | Approved by Council at its meeting held on 28 November 2017. |
| Amended | Feb 2018 | Feb 2018 | | Chair to resubmit ToR papers to Council of the changes | 28 Feb 2018 | Approved by Council at its meeting held on 21 March 2018. |
| 1.2 Risk Management Policy | 27 May 2018 | | CEO / CFO | | | |
| Amended | 28 Feb 2018 | May 2020 | | | | |
| 1.3 Meetings Conducted | | | | Meetings schedule satisfied legislative requirements | | |
| Winnellie Office | 5 Nov 2018 | | | | 5 November 2018 | Corporate Calendar for 2019 adopted by Council. Audit & Risk Management Committee meetings: 11 February 2019 3 June 2019 25 October 2019 |
| Winnellie Office | 11 Feb 2019 | | | | 11 Feb 2019 | |

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| | | | | | | | | All meetings are scheduled for Mondays except October 2018 meeting. |
| 2 Audit and Risk Management Committee Membership | | | | | | | | |
| 2.1 | Membership | | | | | | | |
| 2.1.1 | Council Members - Mayor Gawin Tipiloura (Bathurst Is Ward) - Cr Lynette De Santis (Milikapiti Ward) - Vacant (Pirangimpi Ward) | 12 Sep 2017 12 Sep 2017 TBA | | | | 1 representative from each ward | | Review in September 2019 as stated in the terms of reference. |
| 2.1.2 | Independent Members - Brendan Dowd - Sandra Cannon | 31 Oct 2018 18 May 17 | 31 Oct 20 | | | Period of two years appointment as per Council's resolution | | Review in accordance with appointment end dates. |
| 2.1.3 | Membership Endorsed by Council | 12 Sep 2017 | Sep 2017 | | | | | |
| 3 Financial Reporting | | | | | | | | |
| 3.1 | Draft Annual Financial Statements | Nov 2019 | Nov 2019 | | | Annual Financial Statements to be lodge with DHCD by 15 November 2018 | 21 April 19 | Review in Oct 2019 |

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|---------------------------|---|-----------|-----------|--|---|-----------|--|
| 3.2 | Draft Annual Business Plan & Budget | June 2019 | June 2020 | | Draft Annual Business Plan & Budget 2019/20 adopted for consultation by Council at its meeting on 19 June 2019 | June 2019 | Review in June 2019 |
| 3.3 | Adoption of Annual Business Plan & Budget | July 2019 | July 2020 | | Annual Business Plan & budget 2019/20 adopted by Council 24 July 2019 | July 2019 | |
| 3.4 | Long Term Financial Plan Reviewed | | | | | | Reviewed document to be considered by Council as soon as practical after adoption of Annual Business Plan each year. |
| 3.5 | Asset Management Plan Review | | | | Management Accountant have commenced working on the asset management plan | | |
| 3.6 | Review of Investments | | | | N/A | | |
| 3.7 | Management Representation Letter | | | | To tabled at the ARMC meeting on 11 Feb 2019 for information and update. | | |
| 4 External Auditor | | | | | | | |
| 4.1 | Select Tender | June 2018 | June 2020 | | Merit Partners 3 year term and Council has extended for the next 12 months to completed 2016/17 Financial Audit | | Review in 2018 |
| | | | | | Merit Partners 3 year term and Council has | | Reviewed in 2018 and tendered for February 2018. |

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