



AGENDA

AUDIT COMMITTEE MEETING

WEDNESDAY, 20 NOVEMBER 2019

Notice is given that the next Audit Committee Meeting of the Roper Gulf Regional Council will be held on:

- Wednesday, 20 November 2019
- The Council Chambers
- Roper Gulf Regional Council Support Centre
- 2 Crawford Street, Katherine
- Commencing at 10:00am.

Your attendance at the meeting will be appreciated.

Phillip LUCK
Chief Executive Officer

PLEDGE

“We pledge to work as one towards a better future through effective use of all resources.

We have identified these key values and principles of Honesty, Equality, Accountability, Respect and Trust as being integral in the achievement of our vision, that the Roper Gulf Regional Council is Sustainable, Viable and Vibrant”.

PRAMIS BLA WI

“Mela pramis bla wek gudbalawei bla meigim futja bla wi wanwei, en bla yusim ola gudwan ting bla helpum wi luk lida.

Mela bin luk ol dijlod rul, ebrobodi gada tok trubalawei, wi gada meik so wi gibit firgo en lisiin misalp, abum rispek en trastim misalp bla jinggabat bla luk lida, Roper Galf Rijinul Kaunsul deya maindim en kipbum bla wi pramis, dum wek brabli gudbalawei, en im laibliwan.”

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13	CLOSED SESSION	
13.1	Confirmation of Previous Minutes - Confidential <i>The report will conducted in accordance with the Local Government Act 2008 s 65(2) and Local Government (Administration) Regulations 2008 reg 8(a).</i>	
13.2	FINANCE - Management Letter 2018-19 Audit <i>The report will conducted in accordance with the Local Government Act 2008 s 65(2) and Local Government (Administration) Regulations 2008 reg 8(e).</i>	
13.3	Records Management <i>The report will conducted in accordance with the Local Government Act 2008 s 65(2) and Local Government (Administration) Regulations 2008 reg 8(c)(iv).</i>	

13.4 Risk Management Plan

The report will be conducted in accordance with the Local Government Act 2008 s 65(2) and Local Government (Administration) Regulations 2008 reg 8(c) (iv).

14 ITEMS FOR NEXT MEETING

CLOSE OF MEETING

CONFIRMATION OF PREVIOUS MINUTES



ITEM NUMBER 4.1
TITLE Confirmation of Previous Minutes
REFERENCE 864006
AUTHOR Prerna RAMAWAT, Governance Officer

Audit Committee at its meeting on 06 March 2019 resolved that the matter be deferred to the meeting to be held on 06 March 2019.

RECOMMENDATION

That the Audit Committee approves the minutes as a true and accurate record of the previous Audit Committee Meeting held on 18 September 2019.

BACKGROUND

The Audit Committee met on Wednesday 18 September 2019 at 2 Crawford Street, Katherine at 10:00am.

Attached are the minutes of Audit Committee Meeting.

ISSUES/OPTIONS/SWOT

Nil

FINANCIAL CONSIDERATIONS

Nil

ATTACHMENTS:

1 Audit Committee 2019-09-18 [850073].DOCX



MINUTES OF THE ROPER GULF REGIONAL COUNCIL AUDIT COMMITTEE
MEETING HELD AT THE COUNCIL CHAMBERS, ON WEDNESDAY
18 SEPTEMBER 2019 AT 10:00AM
ROPER GULF REGIONAL COUNCIL SUPPORT CENTRE,
2 CRAWFORD STREET, KATHERINE

1. PRESENT/STAFF/GUESTS

Members

- Mr Garry LAMBERT, Independent Member, Chairperson;
- Mr Sheldon SMITH, Independent Member;
- Councillor Donald GARNER;
- Councillor David MURRUNGUN;
- Councillor Eric ROBERTS.

Staff

- Phillip LUCK, Chief Executive Officer;
- Marc GARDNER, General Manager Corporate Services and Sustainability;
- Cristian COMAN, Manager Governance and Corporate Planning;
- Prerna RAMAWAT, Governance Officer (minute taker).

2. MEETING OPENED

The Audit Committee Meeting opened at 10:02am.

3. APOLOGIES AND LEAVE OF ABSENCE

There were no members absent from this Audit Committee Meeting.

4. CONFIRMATION OF PREVIOUS MINUTES

4.1 CONFIRMATION OF PREVIOUS MINUTES

52/2019 RESOLVED (Donald GARNER/Eric ROBERTS)

CARRIED

- (a) That the Audit Committee approves the minutes as a true and accurate record of the previous Audit Committee Meeting held on 19 June 2019.

5. CALL FOR ITEMS OF GENERAL BUSINESS

Nil

6. DISCLOSURE OF INTEREST

There were no declarations of interest at this Audit Committee Meeting.

7. BUSINESS ARISING FROM PREVIOUS MINUTES

7.1 ACTION LIST

53/2019 RESOLVED (Donald GARNER/David MURRUNGUN) CARRIED

- (a) That the Audit Committee receives and notes Action List.

8. INCOMING CORRESPONDENCE

Nil

9. OUTGOING CORRESPONDENCE

Nil

10. ELECTED MEMBERS'S REPORT

Nil

11. OPERATIONAL REPORT**11.1 UPDATES ON 2018/19 FINANCIAL AUDIT**

54/2019 RESOLVED (Eric ROBERTS/David MURRUNGUN) CARRIED

- (a) That the Audit Committee receives and notes the updates on 2018/19 Financial Audit report.

12. GENERAL BUSINESS**13. CLOSED SESSION****13.0 DECISION TO MOVE INTO CONFIDENTIAL SESSION**

55/2019 RESOLVED (Donald GARNER/Sheldon SMITH) CARRIED

- (a) That the Committee Moves into Confidential Session.

14. RESUMPTION OF MEETING**14.1 DECISION TO MOVE OUT OF CONFIDENTIAL**

58/2019 RESOLVED (Sheldon SMITH/Eric ROBERTS) CARRIED

- (a) That the Committee moves out of Confidential Session.
(b) That the matters considered by the Committee with the exception of items 13.4 and 13.5 be made publicly available.

13.1 CONFIRMATION OF PREVIOUS MINUTES - CONFIDENTIAL

56/2019 RESOLVED (Sheldon SMITH/David MURRUNGUN)

- (a) That the Audit Committee approves the confidential minutes as a true and accurate record of the previous Audit Committee Meeting, confidential session as a true and accurate record of that meeting held on 06 March 2019.

13.2 RISK MANAGEMENT PLAN

57/2019 RESOLVED (Sheldon SMITH/Donald GARNER)

- (a) That the Audit Committee reviews the updated Risk Management Plan;
- (b) That Records Management be added as a specific and standing item to the Risk Management Plan; and
- (c) That the term “unwritten rule” be replaced with “articulated expectation” in the “Local Customs” items of the Risk Register.

13.3 RATING OF COMMERCIAL ACTIVE PROPERTIES ON ABORIGINAL LAND

58/2019 RESOLVED (Eric ROBERTS/Donald GARNER)

- (a) That the Audit Committee note the report in relation to rating of commercial active properties on Aboriginal Land.

13.6 COMPLIANCE RESPONSE

59/2019 RESOLVED (Donald GARNER/David MURRUNGUN)

- (a) That the Audit Committee receives and notes update on Compliance Audit from the Department of Local Government, Housing and Community Development.

CLOSE OF MEETING

The meeting terminated at 11:13 am.

This page and preceding pages are the minutes of the Audit Committee Meeting HELD ON Wednesday, 18 September 2019 AND CONFIRMED on Wednesday 20 November 2019.

Mr. Garry LAMBERT,
Chairperson

BUSINESS ARISING FROM PREVIOUS MINUTES

ITEM NUMBER 7.1
TITLE Action List
REFERENCE 865289
AUTHOR Prerna RAMAWAT, Governance Officer

RECOMMENDATION

That the Audit Committee receives and notes Action List.

BACKGROUND

Date	Agenda Item #	Item Description	Responsible Person	Comments/ Details	Ongoing	Status Comments - Completion Date
19-September-2018	11.2	NEW POLICIES	Executive Manager	That the standard operating procedure applicable to the mandatory reporting policy be presented to the November Audit Committee.	In Progress	Draft attached in separate report.
19-June-2019	13.2	Information Rights Management	Information Systems Manager	Contractor to overhaul entire EDRMS and records management processes, including IRM.	Ongoing	Council Management currently analysing issues and developing project plan. Report updating issue provided in Agenda.

OPERATIONAL REPORT



ITEM NUMBER	11.1
TITLE	FINANCE - 2018-19 Annual Financial Statements
REFERENCE	866550
AUTHOR	Lokesh ANAND, Chief Financial Officer

RECOMMENDATION

That the Audit Committee receive and note the Audited Financial Statements for the year ended 30 June 2019

BACKGROUND

As per Section 135 of the *Local Government Act 2008*, a council must prepare Annual Financial Statements and have it audited through an independent auditor.

ISSUES/OPTIONS/SWOT

The annual financial statements are attached for the review. The auditors have issued an Unmodified/Unqualified opinion.

FINANCIAL CONSIDERATIONS

Nil

ATTACHMENTS:

- 1 Final Signed Audited Financials 30.06.2019.pdf



Roper Gulf Regional Council

ABN: 94 746 956 090

Annual report for the financial year ended 30 June 2019

Roper Gulf Regional Council
ABN: 94 746 956 090
Index to the financial report

Index to the financial report

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Chief Executive Officer's Statement

I, Phillip Luck, the Chief Executive Officer of Roper Gulf Regional Council, certify that to the best of my knowledge, information and belief:

- (a) the financial statements have been properly drawn up in accordance with the Local Government Act, the Local Government (Accounting) Regulations and the Australian Accounting Standards and professional pronouncements so as to present fairly the financial position of the Council as at 30 June 2019 and the results for the year then ended; and
- (b) the financial statements are in accordance with the accounting and other records of the Council.



.....
Phillip Luck
Chief Executive Officer
Dated: 18 October 2019



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Australia

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Independent Auditor's Report to the members of Roper Gulf Regional Council

Opinion

We have audited the accompanying financial report of Roper Gulf Regional Council ("the Council"), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows and for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Chief Executive Officer's statement.

In our opinion, the financial report of Roper Gulf Regional Council presents fairly, in all material respects, the Council's financial position as at 30 June 2019 and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the *Local Government Act* and the *Local Government (Accounting) Regulations*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the council in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

(a) Management are responsible for the other information. The other information comprises the other information included in the Entity's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Liability limited by a scheme approved under Professional Standards Legislation

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Responsibilities of Management and Those Charged with Governance for the Financial Report

Management of the Council is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Local Government Act* and the *Local Government (Accounting) Regulations*, and for such internal control as management determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the ability of the Council to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Council's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Deloitte.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE TOUCHE TOHMATSU



Cheryl Crase
Partner
Chartered Accountants
Darwin, 21 October 2019

Roper Gulf Regional Council
 ABN: 94 746 956 090
 Statement of financial position

**Statement of profit or loss and other comprehensive income
 for the financial year ended 30 June 2019**

	Note	2019 \$	2018 \$
Revenue			
Grants and contributions	4(a)	17,332,231	20,998,832
User charges and fees	4(b)	640,133	415,719
Rates and other charges	4(c)	2,313,396	2,749,196
Other revenue	4(d)	20,539,128	20,911,770
Gains on disposal of assets	6	547,941	-
Interest Income	7 (c)	507,183	346,334
Total Revenue		41,880,012	45,421,851
Expenses			
Employee costs	5(a)	18,140,384	18,026,436
Materials and contracts	5(b)	5,504,374	8,024,753
Depreciation and amortisation	5(c)	4,715,539	4,149,813
Other expenses	5(d)	7,615,251	8,244,883
Total Expenses		35,975,548	38,445,885
Surplus for the year		5,904,464	6,975,966
Other comprehensive income for the year			
		5,904,464	6,975,966
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation	20	-	10,740,500
Total comprehensive income for the year		5,904,464	17,716,466

Notes to the financial statements are included on pages 10 to 28 and form part of financial statements

Roper Gulf Regional Council
ABN: 94 746 956 090
 Statement of financial position

**Statement of financial position
 as at 30 June 2019**

	Note	2019 \$	2018
Assets			
Current assets			
Cash and cash equivalents	7(a)	37,597,068	23,920,454
Short Term Deposits	7(b)	-	5,000,000
Trade and other receivables	8	1,709,773	586,475
Inventories	9	198,730	148,767
Other assets	10	7,335	5,335
Total current assets		39,512,906	29,661,031
Non-current assets			
Property, plant and equipment	11	70,736,763	65,123,963
Total non-current assets		70,736,763	65,123,963
Total Assets		110,249,669	94,784,994
Liabilities & Equity			
Current liabilities			
Trade and other payables	12	1,962,653	2,438,956
Grant Liability	13	12,140,250	1,800,000
Provisions	14	1,311,588	1,611,433
Total current liabilities		15,414,491	5,850,389
Non-current liabilities			
Provisions	14	370,051	373,942
Total non-current liabilities		370,051	373,942
Total liabilities		15,784,542	6,224,331
Net assets		94,465,127	88,560,663
Equity			
Revaluation reserve	20	54,910,531	54,910,531
Accumulated funds		39,554,596	33,650,132
Total equity		94,465,127	88,560,663

Notes to the financial statements are included on pages 10 to 28 and form part of financial statements

Roper Gulf Regional Council
 ABN: 94 746 958 090
 Notes to the financial statements

**Statement of changes in equity
 for the financial year ended 30 June 2019**

	Revaluation Reserve \$	Accumulated Funds \$	Total \$
Balance as at 1 July 2017	44,170,031	26,674,166	70,844,197
Profit for the year	-	6,975,966	6,975,966
Other comprehensive income for the year	10,740,500	-	10,740,500
Balance at 30 June 2018	54,910,531	33,650,132	88,560,663
Balance as at 1 July 2018	54,910,531	33,650,132	88,560,663
Total comprehensive income for the year	-	5,904,464	5,904,464
Balance as at 30 June 2019	54,910,531	39,554,596	94,465,127

Notes to the financial statements are included on pages 10 to 28 and form part of financial statements

Roper Gulf Regional Council
 ABN: 94 746 956 090
 Notes to the financial statements

**Statement of cash flows
 for the financial year ended 30 June 2019**

	2019	2018
Note	\$	\$
Cash flows from operating activities		
Grants received	17,332,231	20,998,832
Receipts from customers	24,546,558	24,885,549
Interest received	507,183	346,334
Payments to suppliers and employees	(23,928,960)	(32,186,126)
Net cash generated by operating activities	18,457,012	14,044,589
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,357,364)	(6,513,431)
Proceeds from sale of property, plant and equipment	576,966	-
Proceeds from/(acquisitions) of short-term deposits	5,000,000	(5,000,000)
Net cash used in investing activities	(4,780,398)	(11,513,431)
Net increase in cash and cash equivalents	13,676,614	2,531,158
Cash and cash equivalents at the beginning of the financial year	23,920,454	21,389,296
Cash and cash equivalents at the end of the financial year	37,597,068	23,920,454

Notes to the financial statements are included on pages 10 to 28 and form part of financial statements

Notes to the financial statements

1. General Information

The Roper Gulf Regional Council (the "Council" or "RGRC") was established as a body corporate by a restructuring order under section 114C of the Local Government Act on 16 October 2007. The Council came into full operation on 1 July 2008, when it merged with other constituent councils to form the local government authority, also referred to as the Roper Gulf Regional Council. The new council incorporated six (6) local government bodies:

1. Borroloola Community Government Council;
2. Jilkminggan Community Government Council;
3. Mataranka Community Government Council;
4. Numbulwar Numburindi Community Government Council;
5. Nyirranggulung Mardulk Ngadberre Regional Council;
6. Yugul Mangi Community Government Council; and
 a large area of currently unincorporated land, the Gulf, Roper Valley, Stuart Plateau and Southern Arnhem Land.

Roper Gulf Regional Council registered office and its principal place of business is as follows:

Registered office
 P.O. Box 1321,
 Katherine, NT 0851

Principal place of business
 2 Crawford Street
 Katherine, NT 0850

The Council has its main office located in Katherine, Northern Territory. The business of the Council is conducted within the community government area situated in the Northern and Eastern Regions around Katherine.

The purpose of this financial report is to provide users with information about the stewardship of the Council and accountability for the resources entrusted to it, information about the financial position, performance and cash flow of the Council.

2. Application of new and revised Accounting Standards

2.1 Amendments to AASBs and Interpretations that are mandatorily effective for the current year

In the current year, the Council has applied AASB 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other AASB Standards that are effective for an annual period that begins on or after 1 July 2018. The transition provisions of AASB 9 allow an entity not to restate comparatives which the Council has adopted and hence not restated the comparative financial statements.

AASB 9 has introduced new requirements for the Council for:

- a) The classification and measurement of financial assets and financial liabilities, and
- b) Impairment of financial assets,

Details of these new requirements as well as their impact on the Council's financial statements are described below:

(a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Council has assessed its existing financial assets and financial liabilities in terms of the requirements of AASB 9) is 1 July 2018.

The Council has applied the requirements of AASB 9 to financial instruments that continue to be recognised as at 1 July 2018 and has not applied the requirements to financial instruments that have already been derecognised as at 1 July 2018.

All recognised financial assets that are within the scope of AASB 9 are required to be measured subsequently at amortised cost or fair value on the basis of the Council's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The directors of the Council reviewed and assessed the Council's existing financial assets as at 1 July 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of AASB 9 has had no impact on the Council's financial assets as regards to their classification and measurement hence had no impact on the Council's financial position, profit or loss, other comprehensive income or total comprehensive income on initial application.

(b) Impairment of financial assets

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Council to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit

Roper Gulf Regional Council

ABN: 94 746 956 090

Notes to the financial statements

risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The council has assessed that the impairment provision under AASB 9 on initial application at 1 July 2018 is same as the provision under AASB 139, hence no adjustment were required on initial application.

(c) Classification and measurement of financial liabilities

The application of AASB 9 has had no impact on the classification and measurement of the Council's financial liabilities.

2.2 Standards and Interpretations in issue but not yet effective

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 15 'Revenue from Contracts with Customers' and the relevant amending standards	1 January 2019	30 June 2020
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 1058 'Income of Not-for-Profit Entities'	1 January 2019	30 June 2020
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	1 January 2019	30 April 2020
AASB 2017-1 'Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments'	1 January 2019	30 April 2020
AASB 2018-8 Amendments to Australia Accounting Standards – Right-of-Use Assets for Not-for-Profit Entities	1 January 2019	30 June 2020

The Council has not yet assessed the full impact of these new and amended Standards and Interpretations.

3. Significant accounting policies**Financial reporting framework**

The financial statements are general purpose financial statements that have been prepared in accordance with the Local Government Act, the Local Government (Accounting) Regulations and the Australian Accounting Standards and professional pronouncements so as to present fairly the financial position of the Council as at 30 June 2019. The Council is a not-for-profit entity for financial reporting purposes.

The financial statements were authorised for issue by the Chief Executive Officer on 18 October 2019.

The Local Government Reporting Entity

The resources Council controls to carry on its functions have been included in the financial statements forming part of the report.

A summary of activities listing along with their contribution to the operating result is provided in the notes to the financial statements. In the process of reporting on the local government as a single unit, all transactions and balances between those activities (for example, loans and transfers between activities) have been eliminated.

Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for Land, Building, Infrastructure and Roads that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Roper Gulf Regional Council
ABN: 94 746 956 090

Notes to the financial statements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Council takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 'Inventories' or value in use in AASB 'Impairment of Assets'

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Revenue and Other Income

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

Grants, Donations and other Contributions

Grants, Donations and other Contributions are recognised in the statement of profit or loss and other comprehensive income when the entity obtains control or the right to receive the grant, donation or other contribution, it is probable that the economic benefits gained from the grant will flow to the entity and the amount of the grant can be measured reliably.

When the grant revenue is received whereby the entity incurs an obligation to deliver economic value directly back to the contributor, this is considered a reciprocal transaction and the grant revenue is recognised in the statement of financial position as a liability until the service has been delivered to the contributor, otherwise the grant is recognised as income on receipt.

Roper Gulf Regional Council receives non-reciprocal contributions of the assets from the government and other parties for zero or a nominal value. These assets are recognised at fair value on the date of the acquisition in the statement of financial position, with a corresponding amount of the income recognised in the statement of profit or loss and other comprehensive income.

Where grants, contributions and donations recognised as incomes during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the amounts subject to those undischarged conditions are disclosed at note 4(a).

Rates

Rates are enforceable debt linked to rateable property that will be recovered when the property is sold, and therefore control normally passes at the time of levying, or where earlier upon receipt of rates paid in advance. The rating period and reporting period for the Council coincide and accordingly, all rates levied for the year are recognised as revenues.

All revenue is stated net of the amount of goods and services tax (GST).

(b) Leasing

Council as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Council as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(c) **Employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Council in respect of services provided by employees up to reporting date.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

(d) **Income tax**

The Council is tax exempt under section 50-25 of the *Income Tax Assessment Act 1997*, being a local governing body.

(e) **Property, plant and equipment**

Property plant and equipment other than Land, Building, Site Improvement and Structure and Roads is carried at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Asset Recognition Threshold

Purchase of property, plant and equipment are recognised initially at cost in the statement of financial position, except for purchases costing less than \$5,000 which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Revaluations

Land, Building, Site Improvement and Structure and Roads are measured at fair value, in accordance with AASB 116 Property, Plant and Equipment and AASB 13 Fair Value Measurement.

Following initial recognition at cost, Land, Building, Site Improvement and Structure and Roads are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted in sufficient frequency (from 3 to 5 years) to ensure that the carrying amounts of assets did not differ materially from the assets' fair values as at the end of reporting date. The regularity of independent valuations depends upon the volatility of movements in market values of relevant assets.

A comprehensive revaluation of entire Land, Building, Site Improvement and Structure and Roads of the Council as of 30 June 2018 was conducted by Public Private Property Pty Ltd. Accordingly, the carrying amount of the assets (Land, Building, Site Improvement and Structure and Roads) after revaluation is the restated amount calculated by eliminating any accumulated depreciation as at revaluation date against the gross carrying amounts of the assets. Revaluation adjustments are made on a class basis. Any revaluation increment upon appraisal is recognised in other comprehensive income and credited to the asset revaluation reserve in equity. To the extent that any revaluation decrease or impairment loss has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase recognised in other comprehensive income.

Revaluation decrements are recognised upon appraisal or impairment testing, with the decrease being charged to other comprehensive income to the extent of any asset revaluation reserve in equity relating to this asset and any remaining decrease recognised in profit or loss. Any revaluation reserve remaining in equity on disposal of the asset is transferred to accumulated funds.

Depreciation

Depreciable property, plant and equipment are written off to their estimated residual values over their estimated useful lives to the Council using, in all cases, the straight line method.

Useful lives, residual values and depreciation methods are reviewed at each reporting period and necessary adjustments are recognised in the current or future reporting periods, as appropriate.

The estimated useful lives used for each class of depreciable assets are:

Class of Fixed Asset	Useful Life
Buildings and Infrastructure	20-50 years
Plant and Equipment	5-20 years

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Furniture, Fixtures and Fittings
Motor Vehicles
Roads

5-15 years
3-7 years
12-100 years

Impairment

Property, plant and equipment were assessed for impairment at 30 June 2019. Where indications of impairment exists, the assets' recoverable amount is estimated and an impairment adjustments is made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows and the asset would be replaced if the Council were deprived of the asset, value in use is taken to be its depreciated replacement cost.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or where no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to the accumulated funds.

Land under Roads

The Council has elected not to value or recognise as an asset land under roads acquired prior to 1 July 2008 in accordance with the election available under AASB 1051 *Land under Roads*. Land under roads acquired after 1 July 2008 will be recognised at cost. The cost of the land under roads will be the fair value as at the date of the acquisition.

Inventories

Inventories held in respect of stores have been valued by using the weighted average cost on a continual basis, after adjustment for loss of service potential. Inventories held in respect of business undertakings have been valued at the lower of cost and net realisable value.

(f) Provisions

Provisions are recognised when the Council has a present obligation (legal or constructive) as a result of a past event, it is probable that the Council will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(g) Financial instruments

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of financial assets.

Debt instruments

Debt Instruments are financial assets with fixed or determinable payments that the Council has the positive intent and ability to hold to maturity. Subsequent to initial recognition, Debt instruments are measured at amortised cost. Interest income is recognised by applying the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or (where appropriate) a shorter period, to the gross carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Impairment of financial assets

The council recognises a loss allowance for expected credit losses on investment in debt instruments that are measured at amortised cost of trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of financial instrument.

The Council recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Council's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

The Council recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

De-recognition of financial assets

The Council derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Council neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Council recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Council retains substantially all the risks and rewards of ownership of a transferred financial asset, the Council continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities

Financial liabilities

Financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not measured at FVTPL, not contingent to the acquirer and not held for trading, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of the financial liability.

Financial liabilities at FVTPL

All other financial liabilities except measured at amortise cost are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit and loss.

De-recognition of financial liabilities

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The Council derecognises financial liabilities when, and only when, the Council's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(h) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(i) Critical accounting judgments and key sources of estimation uncertainty

In the application of the Council's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are significant management judgements and estimates in applying the accounting policies of the Council that have the most significant effect on the financial statements.

Useful Lives of Depreciable Assets

The Council estimates the useful lives of depreciable assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Fair Value of Non-Financial Assets

Management uses valuation techniques to determine the fair value of non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the asset. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date (see Note 12).

Calculations of Loss allowance

When measuring ECL the Council uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

The council estimates loss rates on trade receivables based on the payment profile of the rates and fees & charges over a period of 36 months before 1 July 2018 or 1 July 2019 respectively and the corresponding historical losses experienced within the period. Historical credit loss rates are adjusted to reflect current and forward looking information on macroeconomic factors such as ability of the ratepayers and residents to settle the outstanding rates. There are no material receivables that have been subject to a re-negotiation of repayment terms.

(j) Functions

Revenues and expenses have been attributed to the following functions/activities. The Council believes that it is not practical at this stage to reliably attribute the carrying amounts of the assets to the functions/activities. Functions have been broken down to the following components:

General Public Services

Administrative, legislative and executive affairs, financial and fiscal affairs, general research and general services.

Economic Affairs

General economic, agriculture and forestry, fuel and energy, other labour and employment affairs, CDEP/RJCP, transport and other industries, saleyards and tourism.

Environmental Protection

Waste management, pollution reduction, protection of biodiversity and landscape and protection and remediation of soil, groundwater and surface water.

Housing and Community Amenities

Housing, housing and community development, water supply and street lighting.

Health

Well baby clinics, dental health services and home nursing services, nursing and convalescent home services, immunisation, infant nutrition and child health, family planning services.

Recreation, Culture and Religion

Facilities and venues, recreation parks and reserves, culture and religion services, museums and libraries.

Education

Administration, inspection, support, operation, etc of education programs and services.

Social Protection

Outlays on day care services, family day care, occasional care and outside school hours care, aged services, shelter protection, drug and alcohol treatment programs.

4. Revenue and other income**a) Grants and contributions**

	2019 \$	2018 \$
Operating grant - Australian Government	1,624,589	2,919,962
Operating grant - NT Government	4,066,929	3,964,239
Special purpose grant - Australian Government	7,353,017	8,395,087
Special purpose grant - NT Government	2,951,357	4,612,723
Capital grant - Australian Government	26,343	-
Capital grant - NT Government	1,251,319	735,639
Other grants and contributions	58,677	371,182
Total grants and contributions	17,332,231	20,998,832

b) User charges and fees

	2019 \$	2018 \$
Property lease rental fee	388,733	249,901
Other user charge	251,400	165,818
Total user charges and fees	640,133	415,719

c) Rates and other charges

	2019 \$	2018 \$
General rate income base	1,213,594	1,629,747
Domestic waste charge income base	1,024,682	1,027,450
Special rate base	75,120	91,999
Total rates and other charges	2,313,396	2,749,196

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d) Other revenue

	2019	2018
	\$	\$
Reimbursement income	178,580	157,805
Fuel and Sundry Sales	686,961	613,624
Service fee	1,265,313	996,762
Contract fees – Federal and NT Government	17,498,931	18,468,539
Other operating income	909,343	675,040
Total other revenue	20,539,128	20,911,770

5. Expenses**a) Employee costs**

	2019	2018
	\$	\$
Salaries wages and leave entitlements	14,975,449	14,833,514
Superannuation	1,468,597	1,456,670
Workers compensation	352,552	359,997
Allowances and other staff costs	1,343,786	1,376,255
Total employee costs	18,140,384	18,026,436

b) Materials and contracts

	2019	2018
	\$	\$
Consultants	777,685	1,064,810
Contractors	3,938,261	5,947,566
Materials	788,428	1,012,377
Total materials and contracts	5,504,374	8,024,753

c) Depreciation & Amortisation

	2019	2018
	\$	\$
Buildings, Roads & Infrastructure	3,281,876	2,927,471
Plant & Equipment	717,514	606,204
Furniture & Fittings	8,840	1,004
Motor Vehicles	707,309	615,134
Total Depreciation & Amortisation	4,715,539	4,149,813

d) Other expenses

	2019	2018
	\$	\$
Accounting and audit fees	73,075	69,117
Advertising	14,645	17,020
Bad debts expense	21,364	5,691
Bank fees and charges	11,856	14,784
Chairman and councillor payments	322,625	321,807
Communication	779,235	706,296
Contributions and donations	35,258	28,000
Cost of sales	400,700	336,981
Food and catering	422,100	482,258
Freight	103,915	121,515
Fuel and oil	514,837	475,460
Insurance	589,399	522,314
Leases	747,897	680,503
Legal fees	7,622	50,165
Licenses and registrations	146,805	159,840

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Memberships and subscriptions	96,360	93,998
Repairs and maintenance	32,729	59,807
Printing and stationeries	167,121	168,746
Software and computer expenses	44,245	30,213
Trainings and seminars	178,720	419,502
Travel and accommodation	822,644	974,172
Utilities	930,473	926,651
Other expenses	1,151,626	1,580,043
	<u>7,615,251</u>	<u>8,244,883</u>

6. Gain on Disposal of Assets

	2019	2018
	\$	\$
Gains on disposal of assets	<u>547,941</u>	<u>-</u>

7. (a) Cash and Cash equivalents

	2019	2018
	\$	\$
Cash at Banks	<u>37,597,068</u>	<u>23,920,454</u>

7 (b) Short Term Deposits

	2019	2018
	\$	\$
Term Deposit - Credit Union Australia	-	3,000,000
Term Deposit – Rural Bank	-	2,000,000
	<u>-</u>	<u>5,000,000</u>

7 (c) Interest Income

	2019	2018
	\$	\$
Interest Income	<u>507,183</u>	<u>346,334</u>

Interest rates on business account ranged from 0.6% to 1.03% in 2019 and 0.8% to 1.05% in 2018.

8. Trade and other receivables

	2019	2018
	\$	\$
Trade receivables	242,858	329,794
Allowance for doubtful debts	(24,641)	(1,164)
	<u>218,217</u>	<u>328,630</u>
Rates receivable	207,781	212,886
Allowance for doubtful rates receivable	(50,413)	(52,527)
	<u>157,368</u>	<u>160,359</u>
Accrued Income	1,334,188	97,486
	<u>1,709,773</u>	<u>586,475</u>

The movement in the allowance for doubtful debts is reconciled as follows:

Balance at the beginning of the year	53,691	101,146
Impairment loss recognized on receivable	21,363	5,691

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-	(53,146)
75,054	53,691

Impairment loss reversed
Balance at the end of the year

The average credit period on sales of goods and services is 30 days. No interest is charged on trade receivables, however interest is charged at 18% per annum on outstanding rates. The collectability of receivables is assessed periodically and if there is objective evidence that Council will not be able to collect all amounts due, the carrying amount is reduced for impairment.

The level of outstanding receivables is reported to council monthly and benchmarks are set and monitored for acceptable collection performance.

The Council applies AASB 9 simplified approach to measure expected credit losses using a lifetime expected loss allowance for all trade receivables. Rates receivables are separated from other trade receivables due to the difference in payment terms and security for rates receivables.

The loss allowance as at 30 June 2019 and 01 July 2018 (on adoption of AASB 9) was determined as follows for rates receivable. The expected credit loss was forecasted to be 25% of the outstanding rates due on 01 July 2018 or 30 June 2019 for rates receivable. The Council raises same amount as loss allowance as council's income is secured through a statutory charge on the associated properties with unpaid rates to recover the unpaid rates. The penalties for late payment and non-payment of outstanding receivables also ensure the debt is collected in a timely manner.

Ageing of receivables

	Gross Amount	Current		Past due but not impaired	
		0-30 days	31-60 days	61-90 days	> 90 days
2019	\$	\$	\$	\$	\$
Trade receivables	242,858	213,748	2,581	2,803	23,726
Allowance	(24,641)	(14,433)	-	-	(10,208)
	218,217	199,315	2,581	2,803	13,518
2018					
Trade receivables	329,794	219,717	104,348	457	5,272
Allowance	(1,164)	-	-	-	(1,164)
	328,630	219,717	104,348	457	4,108

The Council does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired. The other classes of receivables do not contain impaired assets. The Council does not hold any collateral over any receivables balances.

9. Inventories

	2019	2018
	\$	\$
Workshop Inventory	35,584	37,744
Diesel Fuel	117,192	93,923
Opal Fuel	45,954	17,100
Total inventories	198,730	148,767

10. Other Current Assets

	2019	2018
	\$	\$
Others	7,335	5,335
Total other current assets	7,335	5,335

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11. Property, plant and equipment

	2019 \$	2018 \$
Carrying amounts of:		
Land and improvements	4,223,000	4,223,000
Buildings and infrastructure	52,751,142	50,812,690
Roads	4,691,611	4,699,644
Plant and equipment	4,184,946	2,504,354
Furniture and fixtures	208,727	2,706
Motor vehicles	2,440,970	1,613,761
Capital work in progress	2,236,367	1,267,808
	70,736,763	65,123,963

The Council's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Council's freehold land and buildings as at 30 June 2018 were performed by Public Private Property Pty Ltd, independent valuers not related to the Council. Messrs. Public Private Property Pty Ltd are members of the Institute of Valuers of Australia, and they have appropriate qualifications and recent experience in the fair value measurement of properties in the relevant locations.

There has been no change to the valuation technique since last valuations and no change between levels of assets. Council assets are revalued after every three years as per council's policy. The next revaluations are due in 2021.

Details of the Council's freehold land and buildings and information about the fair value hierarchy as at 30 June 2019 are as follows:

	Level 2 \$	Level 3 \$	Fair value as at 30/06/2019 \$
Land	4,223,000	-	4,223,000
Buildings and Infrastructure	4,562,557	48,188,585	52,751,142
Roads	-	4,691,611	4,691,611
	8,785,557	52,880,196	61,665,753

Comparative fair value of Council's freehold land & buildings as at 30 June 2018 were as follow:

	Level 2 \$	Level 3 \$	Fair value as at 30/06/2018 \$
Land	4,223,000	-	4,223,000
Buildings and Infrastructure	4,409,536	46,403,154	50,812,690
Roads	-	4,699,644	4,699,644
	8,632,536	51,102,798	59,735,334

The fair value of the Council land was determined based on the market comparable approach that reflects recent transaction prices for similar land.

For the purpose of building, these have been segregated as specialised and non-specialised buildings. The fair value of the specialised buildings, roads and other infrastructure was determined using the cost approach that reflects the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence. The significant inputs include the estimated construction costs and other ancillary expenditure of \$107,500,491 and a depreciation factor applied to the estimated construction cost of approximately 1% - 10%. A slight increase in the depreciation factor would result in a significant decrease in the fair value of the buildings, and a slight increase in the estimated construction costs would result in a significant increase in the fair value of the buildings, and vice versa.

The fair value of non –specialised buildings was determined based on income approach using future cash generating capability of the asset based on current market expectations. Any change in estimated rental yield on property may have significant impact on the fair value buildings.

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Impairment losses recognised in the year

Property, plant and equipment were assessed for impairment at 30 June 2019. Where indications of impairment exists, the assets' recoverable amount is estimated and an impairment adjustments is made if the asset's recoverable amount is less than its carrying amount. No impairment losses have been recognised in the current year profit or loss. (2018: nil)

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Property, plant and equipment (cont'd).

(\$)

The gross carrying amounts and the accumulated depreciation and amortisation of property, plant and equipment at the beginning and end of 2019 and 2018 are shown below

	Capital Work in Progress Cost	Land and improvements Fair Value	Buildings and infrastructure Fair Value	Roads Fair Value	Plant and Equipment Cost	Furniture and Fixture Cost	Motor Vehicle		Total
							Cost	Cost	
Cost or valuation									
Balance at 1 July 2017	62,707	3,991,287	87,745,076	7,156,835	10,412,333	135,898	6,701,999	116,206,135	
Additions	1,211,601	110,000	2,088,745	814,842	997,605	-	1,290,639	6,513,432	
Disposals	(6,500)	-	6,500	-	-	-	(133,194)	(133,194)	
Adjustment	-	121,713	(39,027,631)	(3,260,885)	-	-	-	(42,166,803)	
Balance at 30 June 2018	1,267,808	4,223,000	50,812,690	4,710,792	11,409,938	135,898	7,859,444	80,419,570	
Additions	2,186,144	-	3,788,790	260,465	2,402,998	160,316	1,558,652	10,357,365	
Disposals	-	-	-	-	(547,602)	-	(1,285,523)	(1,833,125)	
Transfers	(1,217,585)	-	1,163,039	-	-	54,545	-	-	
Balance at 30 June 2019	2,236,367	4,223,000	55,764,519	4,971,257	13,265,334	350,759	8,132,573	88,943,810	
Accumulated depreciation and									
Balance at 1 July 2017	-	-	45,733,787	4,257,192	8,299,380	132,188	5,630,549	64,053,096	
Depreciation for the year	-	-	2,697,560	229,911	606,204	1,004	615,134	4,149,813	
Revaluation Adjustment	-	-	(48,431,347)	(4,475,956)	-	-	-	(52,907,303)	
Balance at 30 June 2018	-	-	0	11,147	8,905,584	133,192	6,245,683	15,295,606	
Depreciation for the year	-	-	3,013,377	268,499	717,514	8,840	707,309	4,715,539	
Disposals	-	-	-	-	(542,710)	-	(1,261,389)	(1,804,099)	
Balance at 30 June 2019	-	-	3,013,377	279,646	9,080,388	142,032	5,691,603	18,207,047	
Net carrying assets value as at 30 June 2019	2,236,367	4,223,000	52,751,142	4,691,611	4,184,946	208,727	2,440,970	70,736,763	
Net Book Value as at 30 June 2018	1,267,808	4,223,000	50,812,690	4,699,644	2,504,354	2,706	1,613,761	65,123,963	
Range of estimated useful life in years			20 - 50	Under 100 Yrs	5-20	5-15	3-7	-	

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12. Trade and other payables

	2019 \$	2018 \$
Trade payables	1,294,295	1,606,263
Accrued expenses	372,547	483,281
Other	295,811	349,412
	1,962,653	2,438,956

The average credit period on purchases of goods and services from the suppliers is one month. Generally, no interest is charged on the Trade Payables

13. Grant Liabilities

	2019 \$	2018 \$
Grants received in advance.	12,140,250	1,800,000
	12,140,250	1,800,000

Grant liabilities amount includes unspent grants amounting to \$2,889,911 and grants received in advance of \$9,250,339.

14. Provisions

	2019 \$	2018 \$
Employee benefits	1,681,639	1,985,375
Current		
Annual leave	945,099	1,133,928
Long service leave	366,489	477,505
	1,311,588	1,611,433
Non-current		
Long service leave	370,051	373,942

The provision for employee benefits represents annual leave and vested long service leave entitlements accrued by employees. The increase or decrease in the carrying amount of the provision for the current year results from the change in the number of employees as well as leave encashment by the eligible employees.

15. Commitments**Leases**

Operating leases relate to property, equipment and motor vehicles. The property leases have term from one to three years with no option to extend. The rent is a fixed monthly amount and the Council does not have an option to purchase the building at the expiry of the lease term. A rent review may be performed annually to allow for Consumer Price Index changes. The equipment and motor vehicle operating leases have fixed periods from three to five years. There is no option to purchase the leased equipment and vehicles at the expiry of the leases.

	2019 \$	2018 \$
Non-cancellable operating lease commitments		
Within 1 year	204,777	306,582
More than 1 year but less than 5 years	287,675	379,917
Balance at end of financial year	492,452	686,499

16. Grant obligations

Grants and contributions which were obtained on the condition that they be expended for specified purposes or in a future period, but which are not yet expended in accordance with those conditions, are as follows:

(a) Unexpended Grants

	2019 \$	2018 \$
Special purpose grant - Australian Government	2,066,645	986,922
Special purpose grant - NT Government	2,225,672	2,531,578
Capital grant - Australian Government	343,658	-
Capital grant - NT Government	7,917,879	999,303
Other grants and contributions	88,068	318,737
Total grants and contributions	12,641,922	4,836,540

(b) Reconciliation of unexpended grants

	2019 \$	2018 \$
Unexpended grants as at 1 July	4,836,540	4,919,809
Grants received during the year	17,332,231	20,998,832
Grants expended during the year	9,526,849	21,082,101
Total unexpended grants at 30 June	12,641,922	4,836,540

17. Contingent Liabilities

As at 30 June 2019, there are no contingent liabilities.

18. Financial Risk Management

The main risks Roper Gulf Regional Council is exposed to through its financial instruments are credit risk, liquidity risk, market risk and interest rate risk.

The Council's financial instruments consist mainly of Debt instruments (Investments & trade and other receivables) and trade & other payables.

(a) Risk Management Objectives

The Council has given the Chief Executive Officer (CEO) the power to invest funds of the Council. The Council's objective is to minimise financial risk by investing only in short term deposits with local banks. Before any investments are made, banks are contacted by the Finance Committee to obtain available rates; the Finance Committee will present the information to the CEO who will approve the investment to be made. Monthly reports on investments are prepared and given out at council meetings. The CEO and Finance Committee of the Council receive monthly investment summaries from banks confirming the amount of investments.

(b) Credit Risk

Credit risk is the risk that counterparty may fail to discharge an obligation to the Council. The Council is exposed to this risk for various financial instruments arising from receivables in the conduct of its operations.

The Council minimises risk by only investing cash in government guaranteed financial institutions and reputed Australian banks.

The Council continuously monitors defaults of customers and believes that it does not have any significant credit risk exposure to any other counter party or group of counter parties as the Council actively manages credit risk by following up outstanding debtors.

The Council does not have a material credit risk exposure relating to term deposits and bank accounts held with the Traditional Credit Union and Commonwealth Bank of Australia.

The Council believes that it does not have any significant credit risk exposure to any other counter party or group of counter parties as the Council actively manages credit risk by following up outstanding debtors.

None of the Council's financial assets are secured by collateral or other credit enhancements. An ageing analysis of the Council's trade and other receivables is disclosed in Note 8.

(c) Liquidity Risk

Liquidity risk or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may also result from the inability to sell financial assets quickly at their fair values.

The Council reduces its exposure to liquidity risk by monitoring its cash flows closely through rolling future cash flows and monitoring the ageing of receivables and payables.

The Council maintains cash and cash equivalents deemed sufficient to finance its operations. Excess cash are invested in short-term investments to achieve maximum returns.

The following table details the Council's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Council can be required to pay. The tables include both interest and principal cash flows (where relevant). The contractual maturity is based on the earliest date on which the Group may be required to pay

		30 June 2019	
	Notes	Within one year \$	Total \$
Trade and other payables	12	1,962,653	1,962,653
Grant Liability	13	12,140,250	12,140,250
		14,102,903	14,102,903
		30 June 2018	
	Notes	\$	\$
Trade and other payables	12	2,438,956	2,438,956
Grant Liability	13	1,800,000	1,800,000
		4,238,956	4,238,956

(d) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Council is exposed to market risk through its use of financial instruments and specifically to interest rate risks from its operating, investing and financing activities.

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period, whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Council is exposed to interest rate risk primarily from its cash surpluses invested in short term interest bearing deposits. The deposits are only made with reputable financial institutions with maturity dates generally being no more than a year.

	Note	2019 \$	2018 \$
Short-term deposit	7(b)	-	5,000,000

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The Council has not entered into any loans or other financial commitments that present exposure to interest rate risk as at the end of reporting period. Credit cards are the only short term financial instrument used by the Council and balances are cleared at month end.

Interest earned on term deposits after they mature may be affected by changes in market interest rates. The following table represents the effect to the statement of profit or loss and other comprehensive income (and corresponding effect to the cash value in the statement of financial position) when the current market interest rate is varied by a 100 basis point is anticipated to be a reasonable estimate of the maximum movement in market interest rates in financial year 2018-19.

	2019	
	+ 100 basis points \$	- 100 basis points \$
Effect on statement of profit or loss and other comprehensive income	-	-
	2018	
	+ 100 basis points \$	- 100 basis Points \$
Effect on statement of profit or loss and other comprehensive income	3,465	(3,465)

19. Key management personnel compensation

	2019 \$	2018 \$
Short-term employee benefits	1,078,242	985,317
Post-employment benefits	13,727	18,643
	1,091,969	1,003,960

20. Reserves

	2019 \$	2018 \$
Properties revaluation	54,910,531	54,910,531
	\$	\$
Balance at beginning of year	54,910,531	44,170,031
Increase arising on revaluation of properties	-	10,740,500
Balance at end of year	54,910,531	54,910,531

The properties revaluation reserve arises on the revaluation of land, buildings, infrastructure and roads. When revalued assets are sold, the portion of the revaluation reserve that relates to that asset is not transferred directly to retained earnings. Items of other comprehensive income included in the revaluation reserve will not be reclassified subsequently to profit or loss.

21. Notes to the statement of cash flows

(a) Reconciliation of loss for the year to net cash flows from operating activities

	2019 \$	2018 \$
Surplus for the year	5,904,464	6,975,966
Adjustment For :		
Depreciation and amortisation	4,715,539	4,149,813
Net profit on disposal of assets	(547,941)	-
Operating profit before changes in working capital	<u>10,072,062</u>	11,125,779
Change in working capital:		
(increase)/decrease in trade and other receivables	(1,123,298)	784,917
(increase)/decrease in inventories	(49,963)	16,776
(Increase)/decrease in other assets	(2,000)	7,170
(Decrease)/increase in trade and other payables	(476,303)	(26,411)
Decrease/increase in Grant Liability	10,340,250	1,797,613
(Decrease)/increase/ in provisions	(303,736)	155,647
Adjustment for other assets	-	183,098
Net change in working capital	<u>8,384,950</u>	2,918,810
Net cash flows generated from operating activities	<u>18,457,012</u>	14,044,589

22. Remuneration of auditors

	2019 \$	2018 \$
Audit of the financial report	<u>72,974</u>	69,117

The auditor of Roper Gulf Regional Council is Deloitte Touche Tohmatsu.

23. Events after the reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may affect the operations of the Council, the results of those operations, or the state of affairs of the Council in future financial years.

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 Notes to the financial statements

Appendix - Local Government Reporting

A summary of activities listing along with their contribution to the operating result and their net assets is provided below.

\$ in '000'

	General Public Services		Public Order & Safety		Economic Affairs		Environmental Protection		Housing & Community Amenities		Health		Recreation, Culture & Religion		Education		Social Protection		TOTAL			
	Budget 2019	Actual 2019	Budget 2019	Actual 2019	Budget 2019	Actual 2019	Budget 2019	Actual 2019	Budget 2019	Actual 2019	Budget 2019	Actual 2019	Budget 2019	Actual 2019	Budget 2019	Actual 2019	Budget 2019	Actual 2019	Budget 2019	Actual 2019		
OPERATING REVENUE																						
Income Rates	1217	1213	0	0	0	0	0	0	1099	1099	0	0	0	0	0	0	0	0	0	0	2316	2312
Income Council Fees and Charges	250	259	0	0	599	605	0	0	164	193	0	0	0	0	0	0	0	0	0	0	1013	1057
Income Operating Grants Subsidies	7775	6782	0	0	563	563	0	0	1094	1037	20	15	1335	1320	378	378	6145	5950	17310	16045		
Income Investments	460	507	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	460	507
Income Contributions Donations	0	0	0	0	0	0	0	0	0	0	0	0	2	2	0	0	0	0	0	0	2	2
Income Reimbursements	93	91	0	0	0	0	0	0	23	19	0	0	0	0	0	0	67	69	183	179		
Income Agency and Commercial Services	111	118	0	0	1563	1677	5	9	2373	2401	0	0	0	0	51	58	14845	15427	18948	19690		
Income Capital Grants	1016	71	1400	350	0	0	0	0	1407	674	370	26	591	147	0	0	90	20	4874	1288		
Other Income	660	799	0	0	0	0	0	0	1	1	0	0	0	0	1	1	0	-1	662	800		
TOTAL OPERATING REVENUE	11582	9840	1400	350	2725	2845	5	9	6161	5424	390	41	1928	1469	430	437	21147	21465	45768	41880		
OPERATING EXPENSE																						
Employee Expenses	7173	6806	0	0	806	757	0	0	3757	3591	0	0	680	548	212	198	6919	6404	19546	18104		
Contract and Material Expenses	2705	2152	0	0	1113	808	6	6	2598	2206	8	4	345	255	55	55	2862	2525	9692	8011		
Fleet, Plant & Equipment	267	233	0	0	19	20	0	0	494	421	0	0	34	38	0	0	412	331	1226	1043		
Asset Expense	4611	4716	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4611	4716		
Other Operating Expenses	3028	2743	0	0	104	101	3	3	521	474	0	0	137	103	13	10	898	727	4702	4161		
Finance Expenses	13	12	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	13	12		
Internal Cost Allocations	-13788	-14338	0	0	1438	1543	13	13	2420	2099	25	25	1035	1110	162	179	8695	9297	0	-71		
TOTAL EXPENSE	4007	2124	0	0	3479	3229	22	22	9790	8791	33	30	2231	2054	442	442	19786	19284	39790	35976		
NET RESULT	7575	7716	1400	350	-754	-384	-17	-13	-3629	-3367	357	11	-303	-585	-12	-5	1361	2181	5978	5904		
CARRYING VALUE OF ASSETS																						

GENERAL BUSINESS



ITEM NUMBER	12.1
TITLE	Council's 2018/2019 Annual Report
REFERENCE	866704
AUTHOR	Marc GARDNER, General Manager Corporate Services and Sustainability

RECOMMENDATION

That the Audit Committee receive and note the report in relation to Council's 2018/19 Annual Report.

BACKGROUND

The Council must prepare an Annual Report in relation to its operations and include audited financial statement of the financial year it pertains to in accordance with s199 of the *Local Government Act 2008*, and provide a copy of the report to the Minister (of the Department of Local Government Housing and Community Development), on or before the 15 November each year.

ISSUES/OPTIONS/SWOT

In addition to the above requirements, the Act further states that the Council must ensure that the report includes an assessment of the Council's performance against objectives stated in the Council's Regional Plan as well as any activities of Local Authorities within the Council's area.

The Council must also publish the report on the Council's website and place an advertisement in a newspaper circulating the Council's area.

The Audit Committee is advised that all compliance requirements of the Act in relation to the Annual Report has been adhered to and completed.

The Annual report including the audited financial statements, activities of Local Authorities and report against performance of Council's objectives was presented to the Ordinary Meeting of Council on the 30 October 2019 and accepted.

On the 31 October 2019, a copy of the annual report was sent to the Minister for Local Government, Housing and Community Development.

On the 31 October 2019 the final version was also placed on Council's website, and advertisements advising the public of the report were placed in the Katherine Times and published on the 13 November 2019, as well as the Northern Territory News which was published on the 16 November 2019.

A copy of the report will be forwarded to the Audit Committee for the information.

This report advises the Audit Committee that the Council has met all compliance requirements pertaining to its Annual Report for 2018/2019 financial year in accordance with the *Local Government Act 2008*.

FINANCIAL CONSIDERATIONS

Nil

ATTACHMENTS:

There are no attachments for this report.

GENERAL BUSINESS



ITEM NUMBER	12.2
TITLE	General Instruction No. 3 - Audit Committees
REFERENCE	866745
AUTHOR	Marc GARDNER, General Manager Corporate Services and Sustainability

RECOMMENDATION

That the Audit Committee note the report in relation to General Instruction No. 3 – Audit Committees

BACKGROUND

In March 2015, the Department of Local Government, Housing and Community Development (then the Department of Local Government and Community Services), issued a General Instruction for all local governments in the Northern Territory relating to Audit Committees. This instruction is titled “General Instruction No. 3 – Audit Committees” and a copy is attached.

The purpose of this instruction was to provide guidance to all Councils around the role, structure and operation of Audit Committees as many local governments in the Territory had not established Audit Committees in accordance with the requirements of the Local Government Act. Roper Gulf Regional Council was certainly one of those and at the time the Council thought it was compliant by having a “Finance and Audit Committee” with an independent member. This instruction then led to a separation of roles and the Council formed a compliant Audit Committee and changed the name of the Finance and Audit Committee to the Finance Committee (which still has an independent member).

ISSUES/OPTIONS/SWOT

The General Instruction No. 3 provides an overview of how a Council’s audit committee should be structured and operate to be in accordance with the *Local Government Act 2008*. As it is over 4 years since the instruction was issued and was considered by Council and its Audit Committee, it is provided again for committee member’s information.

FINANCIAL CONSIDERATIONS

Nil

ATTACHMENTS:

- 1 General-instruction-3-audit-committees.pdf



DEPARTMENT OF LOCAL GOVERNMENT AND COMMUNITY SERVICES

Audit Committees

General Instruction No. 3

Issued on behalf of the Department of Local Government and Community Services by

David Willing

Executive Director

Signed

A handwritten signature in black ink, appearing to read "D. Willing".

Date 30.3.15

This is a general instruction pursuant to Regulation 7 of the *Local Government (Accounting) Regulations*. Failure of a council to comply with a general instruction is an offence of strict liability with a maximum penalty of 50 penalty units.

General Instruction No. 3 Audit Committees

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Audit committees

Introduction

This General Instruction provides Northern Territory local governments with a guide to establishing and operating an audit committee in accordance with the *Local Government Act*, the *Local Government (Accounting) Regulations* and in line with good audit committee practises.

This paper aims to:

- explain the purpose for which an audit committee is established;
- provides a guide on the roles and responsibilities of an audit committee; and
- outline good audit committee practices within a council.

Overview

An Audit Committee provides an important role between a council and its management and between a council and its community.

One of the primary roles of these committees is to provide suggestions and recommendations to councils and/or management about actions to be taken to enhance financial governance, considered to be in the best interests of local communities.

An Audit Committee plays a crucial role in the financial reporting framework of a council, by overseeing and monitoring the participation of management and external auditors in the financial reporting process. An audit committee also addresses issues such as the approach being taken by councils and management to address business risk, corporate and financial governance responsibilities and legal compliance. Councils may also refer issues of a strategic nature to their audit committees.

However, the existence of an Audit committee is only one step in a council's approach to best practise financial governance and financial sustainability.

Legislative Base

Pursuant to the *Local Government (Accounting) Regulations* (the Regulations) councils are required to establish an audit committee as part of their internal control framework. Specifically the Regulations provide that an audit committee is to monitor compliance by the council to:

- *proper standards of financial management; and*
- *regulations and the Accounting Standards.*

Role of Audit Committees

Audit committees are an independent advisory body which plays a central role in independently reviewing a council's internal control processes to provide councillors with a level of assurance on the effectiveness of the council's financial and corporate governance practices and compliance with legislative and regulatory requirements. An audit committee has no authority to act independently of council and can only act in areas covered by their charter and within their terms of reference.

Audit committees can assist in identifying areas where changes are required to reduce the risk of a council's exposure to fraud or unauthorised transactions by providing oversight and advice about the Chief Executive Officer's (CEO) fraud protection plan. An audit committee may also act as a conduit between council and its auditors to help improve financial reporting, accountability and transparency within council.

General Instruction No. 3 Audit Committees

The role of an audit committee may include:

- monitoring the effectiveness of the audit function and the implementation of audit recommendations;
- providing an independent line of reporting by the auditor to council;
- reviewing compliance with legislative requirements, contracts, standards and best practice guidelines;
- reviewing and, if appropriate, recommending council approve the financial statements (in conjunction with the auditor's report);
- monitoring changes in accounting and reporting requirements;
- provide oversight and monitoring of the CEO's fraud protection plan;
- reviewing and endorsing a code of conduct; and
- reviewing policies relating to conflicts of interest, misconduct and fraud.

To be effective, the audit committee must be independent from management and free from undue influence from councillors and council staff. The audit committee is an advisory body and members of the audit committee cannot have any executive powers, management functions, or delegated financial responsibility.

It is important for councillors to understand that an audit committee is established as an advisory body. It is the responsibility of the council, not the audit committee, to make decisions on how and what action(s) will be taken on matters brought to the attention of councillors by the audit committee.

Audit Committee Membership

The *Local Government Act* provides that council committee members are appointed by the council. Council committees may have members who are not elected members of the council and all committee members are subject to the terms and conditions determined by the council.

Members of an audit committee are appointed by the council. Ideally the composition of an audit committee should comprise of at least three members but the number of appointments will vary depending on the size of the council and the scope of works to be undertaken by the committee. To avoid tied decisions an uneven committee member number is recommended otherwise the chairperson should be given the deciding vote to avoid such a situation arising.

The committee is to be lead up by a chairperson (who must not be a member of council or a member of the council's staff) and all appointed committee members are to have equal voting rights.

Before establishing an audit committee, a council must come to an agreement regarding the selection process for audit committee members. Consideration should be given to the type of skills, personal attributes and practical experience each individual member must have before being nominated.

Factors to consider include the nominee's:

- level of understanding of local government and the council's operations and the environment in which it operates;
- level of knowledge and practical exposure on governance and financial management practices;
- capacity to dedicate adequate time on the committee;
- depth of knowledge of regulatory and legislative requirements; and
- ability to maintain professional relationships particularly with council members, staff and other stakeholders.

General Instruction No. 3 Audit Committees

In order to ensure the work of the audit committee is value adding, collectively as a group, the audit committee should have the relevant skills and knowledge of council and an understanding of its finance and governance arrangements. There is no mandated requirement for audit committee members to be formally qualified in accounting or a related field.

The council must also agree to the period of audit committee appointment; the conditions upon which recruitment and termination of members is to occur and whether members will be paid or if the appointment will be on an honorary basis. If council decides audit committee members will be paid, then the council must agree to the conditions, rate of payment and ensure there is an appropriate allocation in the council's annual budget.

Individual council staff members and councillors observing an audit committee meeting are not entitled to be remunerated in addition to their normal councillor / staff entitlements.

As stated previously, when councillors are considering nominees for the audit committee, the chairperson of the audit committee must be independent, i.e. neither a councillor of the same council nor a council staff member. It is highly desirable the chairperson have audit, risk and/or financial management skills, knowledge and experience.

Differences between a Finance Committee and an Audit Committee

The role of the finance committee is very different to an audit committee. A finance committee is established and given delegated powers to carry out, on behalf of the council, the financial functions that would normally be undertaken at an ordinary council meeting. This includes reviewing variance analysis of actual performance against budget, reviewing the debtor and creditor lists and ensuring sufficient funds are available to pay forthcoming debts.

In contrast, an audit committee provides advice to the council on financial reporting, accountability and transparency and the audit committee is neither accountable nor responsible for the financial affairs of the council.

As stated previously, an audit committee has no authority or power to act independently of council. A council's finance committee, including any other council committee with delegated powers, must not be combined or share roles and responsibilities with the audit committee. Ideally the audit committee should not comprise substantially of the same members as the finance committee, or any other council committee with council delegated powers, to avoid confusion and potential conflict of member responsibilities.

Audit Committee with other council advisory responsibilities

It may be appropriate for the independent audit committee to also be charged with monitoring and advising council on related matters such as risk management.

Other responsibilities given to the audit committee must not compromise its 'no delegated power rule' set by the Regulations. For example, it would be inappropriate (and against legislation) for the audit committee to have council's investment decision making powers.

Audit Committee Roles

The role, responsibilities and functions of an audit committee are set out in the charter, terms of reference and the work plan.

Audit Committee Charter

Councillors must agree on what roles and responsibilities will be assigned to its audit committee. Then specific roles and levels of authority of the audit committee must be issued in writing as the audit committee's charter. Note, when councillors are considering the role of the audit committee they cannot assign any of their own powers, delegations and/ or responsibilities to the audit committee.

General Instruction No. 3 Audit Committees

The audit committee has no power or authority to override, amend, contradict or act outside the roles and responsibilities issued by council under the audit committee's charter and, subsequently discussed, terms of reference.

Typically the contents of an audit committee charter will include:

- Roles and Responsibilities – details the objectives and purpose of the committee;
- Committee Membership – such as how many members are to be appointed, method of recruiting, terminating and changing members, how the chairperson is selected and the period of appointment;
- Committee Meetings – details how meetings are convened, how often meetings are to be held, what makes a quorum and the frequency of meetings;
- Attendance at meetings and quorums – details if members can attend over the phone or only in person, whether circular out of session decisions can be made, what constitutes a quorum (e.g. require more than 50% of members to attend for the meeting to proceed), how the secretariat function works with the committee and how and when minutes and agendas are distributed;
- Conflict of Interest – regular disclosure of each member's business and other committee appointments and set procedures where conflicts of interest arise (e.g. committee member abstains from discussions and decision making);
- Authority / Delegation / Powers / Limitations – details of the powers and authority the audit committee has to access information, records, systems and reports of the council and the procedure to obtain required information (e.g. request put to the council Chief Executive Officer);
- Reporting – detail the format, frequency and method of reporting audit committee responsibilities back to the council;
- Voting Rights – only officially appointed audit committee members have voting rights. This section should also include council's views on voting by proxy and postal / email / fax votes;
- Audit Committee Performance and Review – should detail how council will measure and assess the performance of the audit committee and its individual members;
- Charter Review and Amendments – how frequently the council will review the audit committee's charter and activities; and
- Persons encouraged to attend meetings – details on individuals and organisations that should specifically be invited to attend audit committee meetings.

Terms of Reference

Specific roles and levels of authority of the audit committee are to be issued through a Terms of Reference which has been formally endorsed by council members. This means audit committees can only act within their Terms of Reference which cannot in any way absolve councillors or council staff from their roles and responsibilities.

Councillors must formally issue a terms of reference for its audit committee which sets out specific projects / responsibilities. Audit committees must be undertaken within the parameters set in its terms of reference and provide advice and recommendations within the scope of its Terms of Reference.

Audit committees have no authority to work outside the scope or change the provisions contained within the approved Terms of Reference.

General Instruction No. 3 Audit Committees

Work plan

An audit committee should have a plan that sets out the work of the committee over the short, medium and long term. This will ensure that members of the committee, council staff and elected members are all clear on the planned and current activities of the audit committee and how it plans to conduct its business.

The work program or plan should be reviewed on a regular basis (at least annually) to ensure the work of the audit committee remains relevant and reflects council's priorities.

Typical work plan priorities include:

- liaising with the council's auditor;
- reviewing financial statements to ensure that they fairly represent the state of affairs of a council;
- proposing, and contributing relevant information to a review of the Councils strategic and annual plans;
- reviewing the adequacy of the council's accounting, internal control, reporting and other financial management systems and practises on a regular basis; and
- providing advice to the council about rectifying any exceptions provided by the auditor through the annual audit of financial statements.

Appointment of a Secretary

Councils should nominate a secretary for the audit committee who should, as a minimum, keep a record of the membership of and the dates of any changes to the membership of the audit committee. The position is also responsible for organising meetings, distributing the agenda and taking and distributing the minutes of all committee meetings.

Council Reporting

Annual Report Information

The council Annual Report should include information about the audit committee as part of reporting on the internal or corporate governance of the council. Information to be published in the council's Annual Report should include:

- audit committee membership and details of background and qualifications of members;
- the committee's principal activities during the year;
- how many times the committee met and who attended;
- information on audits / reviews undertaken; and
- any other relevant information on the activities of the audit committee.

What information should be on the council website?

The council website should include information on the audit committee so that the public can see how the committee works, who is on it and how often it meets. The information on the website should include:

- membership, and details of background and qualifications;
- charter or terms of reference;

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- description of the audit committee's role in risk management and internal control for the council; and
- any other relevant information on the activities of the audit committee.

Section 67(4) of the *Local Government Act* requires minutes of council committee meetings to be available on the council website within 10 business days after the meeting to which they relate. This means that the draft minutes, prior to confirmation at the next committee meeting, must be available on the website. Any confidential items considered at the meeting can be suppressed from the publicly available minutes under section 201 of the *Local Government Act*.

Subsidiaries and related parties of councils

Where one or more councils have a subsidiary, the subsidiary is required to establish its own audit committee. This is because the audit committee of the individual councils do not have a functional role in relation to the subsidiary.

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Literature References

Audit Committees: A Guide to Good Practice for Local Government, Victorian Department of Planning and Community Development, January 2011

Audit Committees in Local Government: Their Appointment, Function and Responsibilities, Local Government Operational Guidelines number 9 (revised March 2006), Department of Local Government and Regional Development, Government of Western Australia.

Financial Sustainability Program: Information Paper Three: Audit Committees, Local Government Association of South Australia, July 2006.

Internal Audit Guidelines, New South Wales Government Premier and Cabinet, Division of Local Government, September 2010.

Public Sector Audit Committees: Independent Assurance and Advice for Chief Executives and Boards, Better Practice Guide, Australian National Audit Office, August 2011.

Relevant legislation references

Note Number	In relation to	Legislation	Section or Regulation
1.	Requirement to establish and maintain an audit committee	Local Government (Accounting) Regulations	Reg 10
2.	Establishing council committees	Local Government Act	Section 54
3.	Requirement to have an independent Chairperson	Local Government (Accounting) Regulations	Reg 10
4.	Establishing a committee to carry out financial functions	Local Government (Accounting) Regulations	Reg 11

Example Audit Committee Charter

A council should agree on an audit committee charter as the framework within which the audit committee Terms of Reference operate.

As an example:

1. Introduction

This audit committee charter is to be read in conjunction with the audit committee Terms of Reference.

The audit committee is an independent advisory body formed to add value and improve the council's operations. This committee is to help the council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of council's financial and corporate governance processes and compliance with legislative and regulatory requirements.

2. Independence

Independence is essential to the effectiveness of the audit committee.

The audit committee function has no direct authority or responsibility for the activities it reviews. The audit committee function has no responsibility for developing or implementing procedures or systems and it does not prepare records or engage in line processing functions or activities. The work of audit committee does not in any way relieve council staff of their responsibilities for the development, implementation and maintenance of management control systems in their area.

3. Authority and Confidentiality

Subject to compliance with the council's confidentiality policy, the audit committee is authorised to have full, free and unrestricted access to all council records, documents and information solely in the course of undertaking the committee's activities.

The audit committee members are responsible and accountable for maintaining the confidentiality of the information they receive during the course of their work on this committee.

4. Scope of Audit Committee Activities

The audit committee activities will encompass all areas of council including internal financial and operational controls, IT systems, asset management and information management.

5. Role and Responsibilities

The audit committee will play an active role in:

- 5.1. developing and maintaining a culture of accountability and integrity;
- 5.2. facilitating the integration of good financial and corporate governance practices into day-to-day business activities and processes;
- 5.3. promoting a culture of cost-consciousness, self-assessment and adherence to high ethical standards; and
- 5.4. promoting a culture of performance and achievement of outcomes.

6. Standards

The audit committee activities will also be conducted in accordance with intent of relevant professional standards deemed appropriate and applicable including:

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- 6.1. International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors;
- 6.2. Standards relevant to audit issued by the Australian Certified Practising Accountants and the Institute of Chartered Accountants in Australia;
- 6.3. Standards relevant to IT Audit and Assurance issued by the Information Systems and Control Association; and
- 6.4. Standards issued by Standards Australian and the International Standards Organisation.

7. Review of Charter

The charter will be endorsed by the council. The audit committee charter shall be reviewed every two years or as deemed necessary by either the council or the Chief Executive Office.

Example Audit Committee Terms of Reference

Name:	Audit Committee		
Type:	Terms of Reference		
Ref No.:	xxxx		
Responsible Officer:	Chief Executive Officer		
Approved Date:	xx/xx/20xx	Review Date:	Xx/xx/20xx [usually bi-annually]

1. PURPOSE

As an example:

This document is to define the composition, role and responsibilities of the audit committee.

2. PRINCIPLES

Council should agree on the audit committee's role.

An example:

The audit committee's role is to independently review the council's internal control processes over the revenue, expenses and assets of the council.

3. RESPONSIBILITIES

Council should agree on the responsibilities of the audit committee being mindful this committee is an advisory body to council and that it has no authority or power to act independently of council.

For example:

The audit committee has no authority to act independently of council.

The audit committee is responsible for acting as an advisory body to council on the following matters to:

- 3.1. monitor the effectiveness of the audit function and the implementation of audit recommendations;*
- 3.2. provide an independent line of reporting by the auditor to council;*
- 3.3. review compliance with legislative requirements, contracts, standards and best practice guidelines;*
- 3.4. review and, if appropriate, recommending council approve the financial statements (in conjunction with the auditor's report);*

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- 3.5. *monitor changes in accounting and reporting requirements;*
- 3.6. *review and endorsing a code of conduct; and*
- 3.7. *review policies relating to conflicts of interest, misconduct and fraud.*

4. COMPOSITION OF THE COMMITTEE

The council should decide on the number of audit committee members and the composition of the council having regard to the skills, personal attributes and practical experience required from the appointed members.

As an example:

The members of the audit committee are to be appointed by the council.

The audit committee should comprise of 3 [or 5] members and with a chairperson who is not a councillor of the council nor one of council's staff members.

5. QUORUM AT COMMITTEE MEETINGS

Council should agree on the audit committee's quorum number and acceptable member attendance rate being mindful of the size of the committee and complexity of the work being undertaken. Also, council should consider whether it is acceptable for members to attend an audit committee meeting via phone and / or video conferencing if unable to attend in person.

For example:

At least 75%, or a minimum of three, audit committee members must be in attendance for the meeting to proceed.

The audit committee members should endeavour to attend at least 75% of the meetings.

Audit committee members may attend meetings by phone or video conferencing if they are unable to attend in person.

6. VOTING RIGHT OF COMMITTEE MEMBERS

Council should decide on voting rights of the audit committee members.

As an example:

All council appointed audit committee members have equal voting rights on the committee.

Where a vote is taken and the result is undecided the chairperson has the casting vote.

7. TERM OF APPOINTMENT AND TERMINATION OF COMMITTEE MEMBERS

The council should agree on the terms of the audit committee appointment and termination of members.

An example:

All audit committee members are appointed for one [two / three] year period.

Audit committee members, not being the chairperson, cease being a member of the committee if they are no longer a councillor of the council.

The chairperson, being an independent non-councillor, is appointed by council for a set period and can be terminated by the council subject to the appointment agreement.

General Instruction No. 3 Audit Committees**8. AUDIT COMMITTEE AND INDIVIDUAL MEMBER PERFORMANCE AND REVIEW**

The council should decide on the frequency and methodology of the audit committee and its member performance review.

As an example:

The audit committee chairperson, in consultation with the council's Chief Executive Officer, will initiate a review of the performance of the committee and the individual member's performance at least once every two years.

The review will be conducted on a self-assessment basis (unless otherwise determined by the council) with appropriate input sought from the Chief Executive Officer, the auditors, management and any other relevant stakeholders, as determined by the Chief Executive Officer.

9. REMUNERATION OF THE COMMITTEE MEMBERS

Council should agree on the remuneration rate and conditions of the independent chairperson and committee members.

10. FREQUENCY OF COMMITTEE MEETINGS

Council should agree on the frequency the audit committee should meet.

Example as follows:

The audit committee should meet at least four times a year to:

- 10.1. review the unaudited financial statements at year end; set the audit agenda and the committee's work plan, including the meeting dates, for the coming financial year [usually June/July];*
- 10.2. meet with the auditors, discuss findings and review the draft audited financial statements to consider recommending for council approval [usually October];*
- 10.3. review the council's November financial statements as against budget; monitor the implementation of any audit recommendations accept by the council; and undertake matters the audit committee is responsible for (e.g. review policies, compliance etc.) [usually December]; and*
- 10.4. review the council's March financial statements as against budget; review the council's draft budget for the following financial year; and undertake matters the audit committee is responsible for (e.g. Review compliance to legislation, contracts, accounting practices etc.) [usually April].*

On setting the audit committee meeting dates the committee must have regard to the date of council meetings to ensure the audit committee report, including draft unapproved minutes of the most recent prior meeting, is reported to council on a timely basis.

General Instruction No. 3 Audit Committees**11. REPORTING BY THE COMMITTEE TO COUNCIL**

Council should agree on the method the audit committee should report to council.

For example:

After meeting the audit committee should report to council at the nearest council meeting and include the committee's draft unapproved minutes.

12. SECRETARIAT SUPPORT OF THE COMMITTEE

The council should decide on the secretary support required by the audit committee and who should undertake that service / responsibility.

For example:

The council will ensure audit committee members have access to the agenda, meeting papers and prior unapproved minutes 5 [or 3] business days before the audit committee meeting is held.

The council will provide secretariat support to audit committee to ensure minutes taken are provided to committee members within 5 [or 3] business days of the meeting being held.

The secretariat is to ensure the minutes of committee meetings are available on the council's website within 10 business days after the meeting to which they relate to comply with section 67(4) of the Local Government Act.

13. COMMITTEE ACCESS TO COUNCIL RECORDS AND RESOURCES

The council should agree on what path the audit committee should undertake to access required council records and information including council resources such as third party financial advice or training.

As an example:

The council, via the council's Chief Executive Officer, will provide the necessary council records and reports for the audit committee to undertake its role and responsibilities subject to any confidentiality provisions in the Local Government Act or other legislative provisions.

The audit committee should approach the council requesting required resources being mindful of the finite nature of such resources.

The audit committee has no authority to procure resources independently of council.

14. CONFLICT OF INTEREST

The council should agree the disclosure and treatment of any audit committee member conflicts of interest.

For example:

Audit committee members must declare any real or perceived conflicts of interest when joining the committee, annually and at the start of each meeting or before discussion of the relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

Where a committee member is deemed to have a real or perceived conflict of interest, at the chairperson's discretion, it may be appropriate that the person is excused from committee deliberations on the agenda item where a conflict of interest exists, or if necessary excused from the meeting.

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15. REVIEW OF TERMS OF REFERENCE

The council should agree on the method and frequency of reviewing the audit committee's Terms of Reference.

As an example:

Bi-annually the audit committee will review its Terms of Reference to ensure it is consistent with the perceived needs of the council. This review will be in consultation with the Chief Executive Officer.

The outcome and recommendations will be given to council to consider.

The audit committee has no power or authority to amend or alter the audit committee's Terms of Reference.

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Enquiries

For queries regarding this procedure please contact the Local Government Sustainability and Compliance team on lg.compliance@nt.gov.au or phone 08 8999 8868

Related legislation and policies:	<i>Local Government Act</i> <i>Local Government (Accounting) Regulations</i>
Related documents:	