



INVERELL
SHIRE COUNCIL



Cr Anthony Michael, Minister for Water Resources, Drought, Rural Finance, Natural Disaster and Emergency Management David Littleproud MP, Principal of F Gaukroger & Sons Mark Palmer, Federal Treasurer Josh Frydenberg MP, Member for New England Barnaby Joyce MP and mayor Cr Paul Harmon.

Supplementary Reports
Business Paper
Ordinary Meeting of Council
Wednesday, 23 October 2019

INVERELL SHIRE COUNCIL

22 October, 2019

An Ordinary Meeting of Council will be held in the Council Chambers, Administrative Centre, 144 Otho Street, Inverell on Wednesday, 23 October, 2019, commencing at **3.00 PM**.

Your attendance at this Ordinary Meeting of Council would be appreciated.

Please Note: Under the provisions of the Code of Meeting Practice the proceedings of this meeting (including presentations, deputations and debate) may be webcast. An audio recording of the meeting may be uploaded on the Council's website at a later time. Your attendance at this meeting is taken as consent to the possibility that your voice may be recorded and broadcast to the public.

P J HENRY PSM

GENERAL MANAGER

Agenda

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8 COMMITTEE REPORTS

8.3 AUDIT RISK AND IMPROVEMENT COMMITTEE MINUTES - 16 OCTOBER 2019

File Number: S4.11.21 / 19/47325

Author: Kristy Paton, Temporary Corporate Support Officer - Publishing

SUMMARY:

A Meeting of the Audit Risk and Improvement Committee (ARIC) was held on Wednesday, 16 October, 2019. The Minutes are attached for Council's information. The Council is asked to consider the Committee's recommendation to adopt the General Purpose, Special Purpose Financial Statements and Special Schedules for year ending 30 June 2019.

COMMENTARY:

Refer to the attached minutes of the meeting.

Agenda Item 11.1 General and Special Purpose Financial Reports 2018/2019 also refers.

Mr Paul Cornall (Forsyths Accounting) gave an overview of the results of the 2018-19 Audit of the Financial Statements. The Engagement Closing Report was not available and the Committee based their decision to recommend the Statements to Council on Mr Cornell's verbal report. He expressed a high level of confidence in Council's 2018-19 Statements receiving an unqualified opinion and his report summarised a range of mostly very positive matters. Mr Cornell addressed each of the key issues listed in the Audit Engagement Plan. His favourable comments reflected on such things as Fair Value assessments, through to improvements in credit card use and preparatory work for the impact of new accounting standards. The Position Papers on the implications of the new accounting standards were made available to the Committee. The only 3 issues expected to be included in the Engagement Closing Report were;

1. Recalculation of Asset Remediation Provisions

Council has an obligation to remediate landfill and quarry sites at the end of their useful life. The asset remediation provision represents the present value estimate of future costs Council will incur to achieve this.

During the audit process it was discovered that Council's provision for the Inverell Landfill was understated as no provision had been made for a 600mm clay capping layer as required by the EPA guidelines. These guidelines were updated in 2016. Council also had to adjust the discount rate in its net present value calculations to reflect the current interest rate environment. The revised landfill remediation provisions have resulted in an increase to the provision of \$4.457M.

Council's quarry remediation was also recalculated using an updated discount rate for net present value resulting in an increase to quarry provisions of \$82K.

The Draft Financial Statements were amended to reflect the changes.

2. Changes to Disclosure Note 6(C) Restricted cash, cash equivalents and investments

Council has historically reported the advance payment of the Financial Assistance Grants as a specific purpose unexpended grant that is externally restricted. The current direction from the Office of Local Government is that Financial Assistance Grants do not classify as an external restriction. Therefore, these funds have been transferred to internally restricted funds. The Draft Financial Statements have been amended to reflect the changes.

3. Disposal of Road Infrastructure Asset on rehabilitation.

As a matter of practical expediency Council has not disposed of road infrastructure assets on rehabilitation. This process overestimated the value of assets and annual depreciation. The error is then corrected during the road revaluation process every five years.

The value of the overstatement was not considered material and no adjustments were made to the Draft Financial Statements. The issue will be raised in the Management Letter for Review.

Mr Phil Schwenke, ARIC Chair, is intending to address Council at the November 2019 Committee Meetings. He will include his report on the activities of ARIC in the previous year and wishes to discuss the ARIC's working relationship with the elected Council. The recently released OLG Discussion Paper on the future direction of ARIC's will also be touched on.

Receipt of Minutes:**RECOMMENDATION:**

That the Minutes of the Audit Risk and Improvement Committee held on Wednesday, 16 October, 2019, be received and noted; and

On the condition there is no material change between the Engagement Closing Report and the outcomes of the Audit as verbally reported by the Contracted Auditor the Committee recommend to Council that:

- (i) Council adopt the General Purpose, Special Purpose Financial Statements and Special Schedules for year ending 30 June 2019;*
- (ii) Council sign the Statements as prescribed by Section 413(2) of the Local Government Act 1993 for the General Purpose and Special Purpose Financial Statements;*
- (iii) Council authorise the General Manager to forward the Financial Statements to the Office of Local Government upon receipt of the Audit Reports from the NSW Audit Office;*
- (iv) Council present the signed audited Financial Statements to the public at the Ordinary Council Meeting to be held on 27 November 2019 in accordance with Section 419 (1) of the Local Government Act 1993; and*
- (v) Council place the audited Financial Statements on public exhibition and provide notice in accordance with Section 418 (3) of the Local Government Act 1993, that Council will consider the Reports of its Auditors for the year ended 30 June 2019 at its Ordinary Meeting to be held on Wednesday 27 November 2019.*

ATTACHMENTS:

- 1. Minutes of Audit Risk and Improvement Committee Meeting 16 October, 2019**

**MINUTES OF INVERELL SHIRE COUNCIL
AUDIT RISK AND IMPROVEMENT COMMITTEE MEETING
HELD AT THE COUNCIL CHAMBERS, ADMINISTRATIVE CENTRE, 144 OTHO STREET,
INVERELL
ON WEDNESDAY, 16 OCTOBER 2019 AT 10.00AM**

PRESENT: Cr Kate Dight, Mr Phil Schwenke (Chair - Independent Member), Mrs Nicki Lavender (Independent Member) and Mr Paul Cornall (Forsyths Accounting) via telephone for Item 6.

1 ATTENDANCE

Scott Norman (Director Corporate & Economic Services), Paul Pay (Manager Financial Services) and Alex Rainger (Risk Co-ordinator) for item 8.2.

2 APOLOGIES

Paul Henry (General Manager) and Chris Harper (NSW Audit Office).

3 CONFIRMATION OF MINUTES

COMMITTEE RESOLUTION

Moved: Cr Kate Dight

Seconded: Mrs Nicki Lavender (Independent Member)

That the Minutes of the Audit Risk and Improvement Committee Meeting held on 22 August, 2019, as circulated to members, be confirmed as a true and correct record of that meeting.

CARRIED

4 DISCLOSURE OF CONFLICT OF INTERESTS/PECUNIARY AND NON-PECUNIARY INTERESTS

Nil

5 INFORMATION REPORTS

5.1 AUDIT RISK & IMPROVEMENT COMMITTEE GUIDELINES S4.11.21/02

This report reflects a similar report recently provided to Council. It provides an update on the changing environment for the Audit, Risk and Improvement function within NSW Local Government and seeks to clarify the relationships between the Audit Risk and Improvement Committee, the elected Council and the operational arm of Council. The Report also alerts the Committee to the ARIC Discussion Paper recently released for comment by the Office of Local Government. The Committee discussed the nature of the relationship between ARIC and the Elected Council, reporting mechanisms and the possible impacts of the discussion paper. It was agreed that any submission on the discussion paper by Council would be circulated to Committee members for information.

COMMITTEE RESOLUTION

Moved: Cr Kate Dight
Seconded: Mrs Nicki Lavender (Independent Member)

That the information report be received and noted.

CARRIED**6 EXTERNAL ACCOUNTABILITY REPORTS EXTERNAL AUDIT - REVIEW OF THE 2018-19 FINANCIAL STATEMENTS S4.11.21/02****SUMMARY:**

Mr Paul Cornall (Forsyths Accounting) gave an overview of the results of the 2018-19 Audit of the Financial Statements. The Engagement Closing Report was not available and the Committee based their decision to recommend the Statements to Council on Mr Cornall's verbal report. He expressed a high level of confidence in Council's 2018-19 Statements receiving an unqualified opinion and his report summarised a range of mostly very positive matters. He addressed each of the key issues listed in the Audit Engagement Plan. The only 3 issues expected to be included in the Engagement Closing Report were;

1. Recalculation of Asset Remediation Provisions

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2. Changes to Disclosure Note 6(C) Restricted cash, cash equivalents and investments

Council has historically reported the advance payment of the Financial Assistance Grants as a specific purpose unexpended grant as an external restriction. Financial assistance grants do not classify as an external restriction. Therefore, these funds have been transferred to internally restricted funds. The Draft Financial Statements amended to reflect the changes.

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The value of the overstatement was not considered material and no adjustments were made to the Draft Financial Statements. The issue will be raised on the Management Letter for Review.

COMMITTEE RESOLUTION

Moved: Mrs Nicki Lavender (Independent Member)

Seconded: Cr Kate Dight

On the condition there is no material change between the Engagement Closing Report and the outcomes of the Audit as verbally reported by the contracted auditor the Committee recommend to Council that:

- (i) Council adopt the General Purpose, Special Purpose Financial Statements and Special Schedules for year ending 30 June 2019;*
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CARRIED

7 INTERNAL AUDIT PROGRAM REPORTS8.1 AUDIT OF THE RISK MANAGEMENT FRAMEWORK S4.11.21/03

SUMMARY:

The report proposed an implementation plan for the recommendations of the internal audit of the ISC Risk Framework completed by Crowe Horwath.

Report Recommendation 1

The Council should align the Audit Committee Charter with the legislation in relation to risk management as follows:

- The Audit Committee should be named “Audit, Risk and Improvement Committee (ARIC)” to align with section 428A (1) of the Act; and
- The ARIC Charter should be revised to reflect the functions of ARIC stated in section 428A (2) and 428A (3) of the Act.

Agreed Outcome - That the Committee endorse the Revised Draft Audit Risk and Improvement Committee Charter and recommend the Charter to Council for adoption. The proposed changes principally recognise the change of the Committee’s title. Further changes are expected when new guidelines are released.

Report Recommendation 2

The current risk register is still in a manual form. It is suggested that Council consider measures for migrating all risks in the manual environment into a workflow-based Information Systems Application.

Agreed Outcome - To install, maintain and utilise a risk based workflow-based Information System is beyond the current capacity of Council. It is agreed to bed down effective manual systems before reconsidering software to automate the process.

Report Recommendation 3

The Risk Management Framework documentation requires some minor edits necessary to enhance its effectiveness. The following are the key identified enhancements:

- Risk Appetite Statements should be directly referenced and or attached at the Appendices of the Risk Management Framework;
- Risk Assessment Process section should not include “generic” steps but rather “suggested steps’ for guidance;
- This Framework should not suggest that “Risk Assessments are discretionary in nature” but rather assert the importance of consistent risk assessment by risk owners;
- Under the Accountability section the Risk Management Framework, the document should recognise the Act and refer to the Audit Committee as ‘ARIC’ as suggested above in this report; and
- The Framework should have a document version control showing approval authorisation, dates of reviews and other circumstances which may result in its review other than the specified date of review.

Agreed Outcome - The identified enhancements to the Risk Management Framework documentation be implemented.

Recommendation 4

The risk register should be enhanced to reflect on the key categories whereby risks are managed within Council.

An approach which has at least three tiers is suggested and in particular to include the following:

- Strategic Risks
- Program Risks
- Project Risks
- Functional Risks

Agreed Outcome - The identified enhancements to the Risk Management Framework documentation be implemented.

Recommendation 5

The Strategic Internal Audit plan should be developed to achieve the following:

- Incorporate key risk areas arising as a result of management observation and through recurring insights; and
- Every audit outcome, in addition to audit findings, should provide the level of initial maturity.

Agreed Outcome - A draft revised Internal Audit Program be presented to the next ARIC meeting for the Committee's consideration.

COMMITTEE RESOLUTION

Moved: Mrs Nicki Lavender (Independent Member)

Seconded: Cr Kate Dight

That the Committee receive the report and endorse the implementation program for the recommendations of the internal audit of the ISC Risk Framework completed by Crowe Horwath.

CARRIED

8 GENERAL BUSINESS REPORTS

8.1 ACTIONS FROM ARIC TRAINING MAY 2019 S4.11.21/02

SUMMARY:

A list of possible actions was identified from the ARIC training attended by the Committee and supporting staff. The debate was further informed by the recently released discussion paper. The Committee workshopped the issues and agreed to outcomes below.

ARIC Procedure

1. Timing of minutes; 1 week to Chair, circulated to members 2 weeks reported to the next Council meeting?

Outcome – Circulated to all Members concurrently within 1 week and reported the next Council Meeting.

2. Meeting reports available to the rest of Council?

Outcome – Meeting reports not available to Council as a matter of course, Council to be provided with enough information to support any recommendations. Council can resolve to be provided with Internal Audit Reports and can request to be provided with other reports which the Committee will accommodate where possible.

3. ARIC work plan

Outcome – A work plan to be developed based on the ARIC responsibilities. The tasks to be included revolving agenda with a gradual transition from the current Agenda format. Identified weakness in the current arrangements is that all ARIC members are due to retire at the same time.

4. Does the ARIC need to develop a short code of meeting practice?

Outcome – Meeting Practice to be based on the current guidelines and the generally accepted rules of debate. This is to be reviewed after the new guidelines become available.

ARIC Work Matters

1. Review of the Risk Management Framework

Outcome – Audit has been completed and recommendations reviewed.

2. Compliance reporting

Outcome – Commence with the OLG compliance calendar and consider developing a comprehensive compliance register in the 2020-21 Year.

3. WHS Reporting

Outcome – Continue current reporting regime.

4. ITC Governance

Outcome – ITC Governance reporting to be listed in the work plan and included in the revolving Agenda

5. Fraud Control

Outcome – Council is currently implementing the Local Government Fraud Prevention Kit. The issue is specifically addressed in the current discussion paper and further guidance is expected.

6. Financial Reporting -

Outcome – The issue is specifically addressed in the current discussion paper and further guidance is expected. In the meantime the Quarterly Budget Reviews will be made available.

7. Governance Reporting / Policy highlighting the three lines of defence.

Outcome - The issue is specifically addressed in the current discussion paper and further guidance is expected. In the meantime ARIC has requested a report on Council's Policy Framework.

8. Internal Audit

Outcome – A revised Schedule of Audits based on the Risk Register to be provided to ARIC. The issue is specifically addressed in the current discussion paper and further guidance is expected.

9. Implementation of Council Strategic Plans

Outcome – Discussion paper sets timeline for implementation as 2026, agreed to review after release of new guidelines.

10. Service Reviews

Outcome – Discussion paper sets timeline for implementation as 2026, agreed to review after release of new guidelines.

ARIC Accountability / Reporting**1. Annual Report Timing**

Outcome – Chair to Report to Council in November to coincide with Council's Annual Report

2. Assessing Audit Committee Performance

Outcome – to be part of the Chair's report to Council.

COMMITTEE RESOLUTION

Moved: Cr Kate Dight

Seconded: Mrs Nicki Lavender (Independent Member)

That the agreed actions arising from the ARIC training attended by the Committee and supporting staff 30 May, 2019 be implemented.

CARRIED

Alex Rainger joined the meeting at 11.20am.

8.2 WHS UPDATE REPORT S4.11.21/02**SUMMARY:**

This report is to update the Committee on progress to implement corrective action plan was developed following StateCover's audit of Inverell Shire Council's WHS Management System (WHSMS).

COMMITTEE RESOLUTION

Moved: Cr Kate Dight

Seconded: Mrs Nicki Lavender (Independent Member)

That the Committee receive and note the progress report.

CARRIED

Alex Rainger left the meeting at 11.30am after presenting the WHS progress report.

8.3 OUTSTANDING ACTIONS REPORT S4.11.21/02

SUMMARY:

The purpose of this report is to provide the Committee with an update of the status of previous resolutions with actions that remain incomplete.

COMMITTEE RESOLUTION

Moved: Cr Kate Dight

Seconded: Mrs Nicki Lavender (Independent Member)

That the Committee receive the report and note the information provided.

CARRIED

9 OTHER BUSINESS

Employee Well Being, Culture and Ethics Audit.

The Committee has previously resolved to conduct an Internal Audit into Employee Well Being, Culture and Ethics. Two proposals has been received for consideration, one from Crowe and one from StateCover. Consensus opinion was that the Crowe proposal would audit Council's related risk exposures and controls whereas the StateCover proposal would survey attitudes and experience of Staff. It was agreed that the desired outcome would be to use StateCover to survey the current environment and Crowe to test process and controls. The Survey and the Audit could run concurrently. It was agreed to proceed on this basis contingent on budget constraints. Should this not be possible the decision should be referred back to the Committee.

COMMITTEE RESOLUTION

Moved: Cr Kate Dight

Seconded: Mrs Nicki Lavender (Independent Member)

- i) *The word 'Ethics' be excluded from the title 'Employee Wellbeing, Culture and Ethics'; and*
- ii) *Dependant on available budget, Statecover be engaged to survey Employee Wellbeing and Culture and Crowe to Audit risk exposures and controls related to Employee Wellbeing and Culture.*

CARRIED

10 NEXT MEETING

10am Wednesday, 19 February 2020.

The Meeting closed at 12.00 pm.

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CHAIRPERSON