

LITCHFIELD COUNCIL



Community effort is essential

Risk Management and Audit Committee (RMAC)

BUSINESS PAPER

TUESDAY 5/05/2020

Meeting to be held commencing 10.00am

Via Video Conference

Daniel Fletcher, Chief Executive Officer

Any member of Council who may have a conflict of interest, or a possible conflict of interest in regard to any item of business to be discussed at a Council meeting or a Committee meeting should declare that conflict of interest to enable Council to manage the conflict and resolve it in accordance with its obligations under the Local Government Act and its policies regarding the same.



LITCHFIELD COUNCIL RMAC MEETING

Notice of Meeting
to be held via Video Conference,
on Tuesday, 5 May 2020 at 10.00am

Daniel Fletcher
Chief Executive Officer

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1. Opening of meeting

2. Apologies and Leaves of Absence

3. Disclosure of Interests

Any member of the RMAC who may have a conflict of interest, or a possible conflict of interest regarding any item of business to be discussed at the RMAC meeting should declare that conflict of interest to enable Council to manage the conflict and resolve it in accordance with its obligations under the Local Government Act and its policies regarding the same.

4. Confirmation of Minutes

THAT the full minutes, including confidential, of the Risk Management and Internal Audit Committee Meeting held Tuesday 17 March 2020, 6 pages, be confirmed

Minutes have been distributed under separate cover and are publicly available on Council's website <http://www.litchfield.nt.gov.au/council/committees> or in hard copy by request.

5. Business Arising from the minutes

THAT Council receives and notes the Action Sheet

Meeting Date	Agenda Item & Resolution	Action Officer	Status
17 March 2020	8.2 Procurement Improvement Committee Update THAT RMAC: 4. Request a report at the next RMAC meeting regarding progress on outstanding items in the action list	DIO	Complete See item 8.1
17 March 2020	8.5 Internal Audit Plan Update THAT RMAC, 2. Recommend that the audit of Councils Work Health & Safety Management Systems and compliance with legislation and the resulting Work Health and Safety Management Plan replace the Audit of Mobile Work Force Work Health and Safety procedures and practices as the second internal audit for the 19/20 financial year. 3. Request that implementation actions from the WHS Management Systems audit be included into the risk register.	GRA	Complete See item 8.2

Meeting Date	Agenda Item & Resolution	Action Officer	Status
17 March 2020	10.1 Payroll Audit Update THAT RMAC: 2. Receive a further update at the next meeting.	DCCS	Backpay calculations including calculations of accrual of leave have been finalised for all current and not current staff. The total value of payment is approximate \$250k above the preliminary provision made in the 2018-19 financial year. Additionally the accrual of leave for current staff will impact the 2019-20 financial year result.

6. Presentations

7. Accepting or Declining Late Items

8. Officer Reports



RMAC REPORT

Agenda Item Number:	8.1
Report Title:	Procurement Improvement Committee Update
Author:	Nadine Nilon, Director Infrastructure and Operations
Meeting Date:	5/05/2020
Attachments:	A: Procurement Improvement Committee Outstanding Action List B: Procurement Improvement Committee Minutes 15 April 2020

Purpose

This report provides an update on outstanding items in the Procurement Improvement Committee action list following a request at the March RMAC meeting.

Summary

Further to the March report, where 67 items were listed as complete, a further review has confirmed that there are 72 complete items, with 30 remaining outstanding.

The outstanding items are from the following audits/reviews;

Audit/Review Document	Complete	In progress	Total
2016 December Council Report	2	1	3
2017 Procurement Audit	34	6	40
2018 Probity Review	17		17
2018 Procurement Maturity Roadmap	10	11	21
2019 Contract Management Audit	3	8	11
2019 RFQ Probity Review	8		8
Risk Action Sheet		2	2
Total	74	28	102

The Procurement Improvement Committee also met in April, and the minutes of that meeting are attached to this report as **Attachment B**.

Recommendation

THAT RMAC

1. Note the content of this report.
2. Note minutes from the Procurement Improvement Committee dated 15 April 2020.
3. Note the updated Procurement Improvement Committee action item list.

Background

A large proportion of the 30 outstanding actions relate to development of the Project Management Framework and Contract Management Procedure and development of the ancillary documents under the respective framework and procedure. These documents are currently under development. In addition, there are many actions that are complete in practice, but not incorporated into a relevant procedure or framework at this time, mitigating Council's risk in relation to these areas.

Attachment A provides a list of the outstanding action items and their current status.

Based on the updated target dates and key documents/action required, the table below indicates the completed items at key milestones.

Key Action/ Document Required	Date for Completion	Action
Complaints Policy	August 2020	Governance - Complaints policy development
Complaints Policy Total		1
Contract Management Procedure	September 2020	Contract Management - Contractor performance reports
		Contract Management - Monitor and report on KPIs
		Contract Management - Review variation procedures and implement changes as identified
		Develop a standard Progress Payments template to support the request for interim contract payments that are submitted to Directors for sign off
		Develop checklist for current and new contracts, including documentation required
		Develop Contract Management System
		Develop process of internal approval of cost variations, including written acceptance to the contractor
		Develop variation procedure and template, to be included in Project Management Framework
		Include checklist in Project Management Framework
		Include contractor performance (KPI's, reports and issues) in checklist, to be included in Project Management Framework
		Include kick-off meeting in checklist, to be included in Project Management Framework
		Include records of contractor performance in checklist, to be included in Project Management Framework
		Include site visits in checklist, to be included in Project Management Framework
		Planning - Contract expiry review and respond
		Planning - Post contract reviews pre tender
Contract Management Procedure Total		15
Project Management Framework	December 2020	Contract Management - Supplier engagement surveys
		Develop Project Management Framework
		Enablers - Contract Management System planning
		Enablers - Procurement Community of Practice

Key Action/ Document Required	Date for Completion	Action
		Extend the requirement for all capital projects to be supported by Project Briefs as part of the budget development process
		Include risk assessment in Project Management Framework
		Planning - Capital bids
		Require that more detailed Project Briefs are prepared and are authorised by a Director prior to commencing any procurement activity
Project Management Framework Total		8
Training	December 2020	Provide contract management training for staff
		Enablers - Policy / procedure training
		Implement Procurement Audit Findings
		Develop and implement Conflict of Interest training for existing staff and include it in Induction Training for new staff
		Provide training on tender evaluation for all staff involved in procurement activities
Training Total		5
Authority Contracts Module Procedure	June 2020	Set up Contracts Module in Authority with accompanying procedure
Authority Contracts Module Procedure Total		1

Links with Strategic Plan

A Well-Run Council - Modern Service Delivery

Legislative and Policy Implications

Nil identified

Risks

The overall control rating for the procurement risk profile has been updated to be adequate as high risk actions have been completed. It is envisaged that once all actions are implemented the overall control rating will be updated to excellent as per the risk acceptance criteria.

Financial Implications

All activities are carried out within existing budgets.

Community Engagement

Nil identified.

Item	Source	Action	Due (Original)	Due (Updated)	Key Action/Document Required	Status
6	2017 Procurement Audit	Develop and implement Conflict of Interest training for existing staff and include it in Induction Training for new staff	Sep-17	Dec-20	Training	Will be combined with training in Procurement Manual etc
19	2017 Procurement Audit	Extend the requirement for all capital projects to be supported by Project Briefs as part of the budget development process	Jun-18	Dec-20	Project Management Framework	Information currently captured informally across documents, will be included within Project Management Framework. Due date amended to December 2020
20	2017 Procurement Audit	Require that more detailed Project Briefs are prepared and are authorised by a Director prior to commencing any procurement activity	Sep-17	Dec-20	Project Management Framework	Information currently captured informally across documents, will be included within Project Management Framework. Due date amended to December 2020
28	2017 Procurement Audit	Provide training on tender evaluation for all staff involved in procurement activities	Dec-17	Dec-20	Training	Completion of Procurement Manual and Tender Procedure - roll out of training for all staff to occur by July 2020 with current documents.
33	2017 Procurement Audit	Develop a standard Progress Payments template to support the request for interim contract payments that are submitted to Directors for sign off	Sep-17	Sep-20	Contract Management Procedure	Captured currently through memos required for payments. Will be formalised in Contract Management Procedure. Due date amended to September 2020
35	2017 Procurement Audit	Provide contract management training for staff	Dec-17	Dec-20	Training	Will occur through other identified training. Requires inclusion in Induction Training.
43	2016 December Council Report	Develop process of internal approval of cost variations, including written acceptance to the contractor	N/A	Sep-20	Contract Management Procedure	Captured currently through memos required for variations. Will be formalised in Contract Management Procedure. Due date amended to September 2020
64	2018 Procurement Maturity Roadmap	Governance - Complaints policy development	Jul-18	Aug-20	Complaints Policy	Complaints currently submitted via the Customer Request Management system. Policy in development. Updated completion date August 2020
65	2018 Procurement Maturity Roadmap	Planning - Contract expiry review and respond	Jul-18	Sep-20	Contract Management Procedure	To be included in Contract Management Procedure. Due date amended to September 2020
66	2018 Procurement Maturity Roadmap	Planning - Post contract reviews pre tender	Jul-18	Sep-20	Contract Management Procedure	To be included in Contract Management Procedure. Due date amended to September 2020
70	2018 Procurement Maturity Roadmap	Contract Management - Review variation procedures and implement changes as identified	Jul-18	Sep-20	Contract Management Procedure	Captured currently through memos required for variations. Will be formalised in Contract Management Procedure. Due date amended to September 2020
77	2018 Procurement Maturity Roadmap	Contract Management - Supplier engagement surveys	Nov-18	Dec-20	Project Management Framework	To be included in Project Management Framework. Due date amended to December 2020
78	2018 Procurement Maturity Roadmap	Contract Management - Contractor performance reports	Nov-18	Sep-20	Contract Management Procedure	To be included in Contract Management Procedure. Due date amended to September 2020
79	2018 Procurement Maturity Roadmap	Enablers - Procurement Community of Practice	Nov-18	Dec-20	Project Management Framework	To be included in Project Management Framework. Due date amended to December 2020
80	2018 Procurement Maturity Roadmap	Enablers - Policy / procedure training	Nov-18	Dec-20	Training	Will occur through other identified training. Requires inclusion in Induction Training.
81	2018 Procurement Maturity Roadmap	Planning - Capital bids	Mar-19	Dec-20	Project Management Framework	To be included in Project Management Framework. Due date amended to December 2020
82	2018 Procurement Maturity Roadmap	Contract Management - Monitor and report on KPIs	Mar-19	Sep-20	Contract Management Procedure	To be included in Contract Management Procedure. Due date amended to September 2020

Item	Source	Action	Due (Original)	Due (Updated)	Key Action/Document Required	Status
83	2018 Procurement Maturity Roadmap	Enablers - Contract Management System planning	Mar-19	Dec-20	Project Management Framework	To be included in Project Management Framework. Due date amended to December 2020
92	2019 Contract Management Audit	Develop Project Management Framework	Dec-19	Dec-20	Project Management Framework	To be included in Project Management Framework. Due date amended to December 2020
94	2019 Contract Management Audit	Include risk assessment in Project Management Framework	Dec-19	Dec-20	Project Management Framework	To be included in Project Management Framework. Due date amended to December 2020
95	2019 Contract Management Audit	Set up Contracts Module in Authority with accompanying procedure	Dec-19	Jun-20	Authority Contracts Module Procedure	Contracts module in place, procedure required.
96	2019 Contract Management Audit	Develop checklist for current and new contracts, including documentation required	Aug-19	Sep-20	Contract Management Procedure	Checklist prepared. Occurring in practice, due date amended to September 2020 to enable Contract Management Procedure to be completed
97	2019 Contract Management Audit	Include checklist in Project Management Framework	Dec-19	Sep-20	Contract Management Procedure	Checklist prepared. Occurring in practice, due date amended to September 2020 to enable Contract Management Procedure to be completed
98	2019 Contract Management Audit	Include kick-off meeting in checklist, to be included in Project Management Framework	Aug-19	Sep-20	Contract Management Procedure	Checklist prepared. Occurring in practice, due date amended to September 2020 to enable Contract Management Procedure to be completed
99	2019 Contract Management Audit	Include site visits in checklist, to be included in Project Management Framework	Aug-19	Sep-20	Contract Management Procedure	Checklist prepared. Occurring in practice, due date amended to September 2020 to enable Contract Management Procedure to be completed
100	2019 Contract Management Audit	Develop variation procedure and template, to be included in Project Management Framework	Aug-19	Sep-20	Contract Management Procedure	Captured currently through memos required for variations. Will be formalised in Contract Management Procedure. Due date amended to September 2020
101	2019 Contract Management Audit	Include contractor performance (KPI's, reports and issues) in checklist, to be included in Project Management Framework	Aug-19	Sep-20	Contract Management Procedure	To be included in Contract Management Procedure. Due date amended to September 2020
102	2019 Contract Management Audit	Include records of contractor performance in checklist, to be included in Project Management Framework	Aug-19	Sep-20	Contract Management Procedure	To be included in Contract Management Procedure. Due date amended to September 2020
A1	Risk Action Sheet	Implement Procurement Audit Findings	Jun-18	Dec-20	Training	Underway as per actions identified. Completion of documents and training will resolve identified outstanding actions.
A2	Risk Action Sheet	Develop Contract Management System	Jun-18	Sep-20	Contract Management Procedure	Underway as per actions identified



MINUTES

PROCUREMENT IMPROVEMENT COMMITTEE MEETING

Notice of Meeting
to be held in Executive Conference Room
on Wednesday 15th April, 2020

Nadine Nilon
Director Infrastructure and Operations

Number	Agenda Item
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1	Welcome
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Present: Daniel Fletcher (CEO), Nadine Nilon (DIO), Silke Maynard (DCCS), David Jan (GRA), Arun Dian (FM), Phil Joyce (MIA), Charissa Wust (WA)

2	Apologies
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Nil

3	Disclosures of interest
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Nil

4	Outstanding Action Items
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Nil

5	Ongoing Action Items
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5.1 Action Sheet

<https://infoXpert.edrms/docs/CORPORATE%20MANAGEMENT/MEETINGS/Procurement%20Improvement%20Committee/PIC%20Improvement%20Actions.xlsx>

Action sheet reviewed briefly. Discussion regarding timing and importance of updating status and reviewing likely timing to meet risk requirements.

ACTION: All to update status by 29 April 2020.

5.2 KPI Reporting

- a. Insufficient quotes (FM)
- b. Split orders (FM)
- c. Purchases where purchase order issued below procurement threshold and total invoices resulted above threshold (\$10,000, \$100,000) (FM)
- d. Total contact cost relative to awarded value (MIA)

Reports not tabled for meeting.

ACTION: FM and MIA to circulate reports by 29 April 2020.

6 General Business

6.1 Vendor Panel Proposal – procurement platform

Attachment A – Vendor Panel Proposal

Attachment B – Vendor Panel Platform Overview

Attachment C – Marketplace Case Study

Attachment D – Richmond Valley Reduce Risk

Brief overview of proposal received through GRA. Requires consideration of potential benefits alongside integration with existing systems tenderlink and Authority. Noting that this may be a potential contract management solution if the workflow is able to appropriately integration with workflows and not 'double-up' on tasks.

ACTION: MIA and WA to review and determine appropriateness of system. GRA to provide contact details of Vendor Panel to MIA for presentation from Vendor Panel. Update to be provided by MIA at next PIC Meeting.

6.2 Risk Control Status – Policies and Procedures – Attachment and link below

[https://infoXpert.edrms/docs/CORPORATE MANAGEMENT/RISK MANAGEMENT/Risk Register/Control Management/RCS Procurement policies and procedures RP14.docx](https://infoXpert.edrms/docs/CORPORATE%20MANAGEMENT/RISK%20MANAGEMENT/Risk%20Register/Control%20Management/RCS%20Procurement%20policies%20and%20procedures%20RP14.docx)

Discussed updating of risk controls and status. Agreed that Procurement Manual and Tender Procedure to be updated as individual controls as 'adequate'.

ACTION: GRA to update documentation and risk register as required prior to next meeting.

6.3 Procurement Manual and Tender Procedure were endorsed by ET on Tuesday 7th April, 2020

Discussed next steps, including coordination of training. Also awareness of potential new Local Government Act and Regulations to come into place which may impact processes, such as the inclusion of public quotations for \$100-150,000 value works.

ACTION: DIO to ensure documents in appropriate location for access and advise all staff.

ACTION: WA to work with MIA and FM on training requirements of documents for presentation to next PIC Meeting.

7

Next Meeting

Next meeting to be scheduled in approximately 4 weeks' time.



RMAC REPORT

Agenda Item Number:	8.2
Report Title:	Review 3-year internal audit program and progress update
Author:	David Jan, Governance and Risk Advisor
Meeting Date:	5/05/2020
Attachments:	A: 3-year internal audit plan

Purpose

To update RMAC on the progress of the Internal Audit program and confirm the three year rolling internal audit program.

Summary

An updated internal audit plan is proposed that extend out to the 2022/23 financial year (Attachment A). Internal audits proposed for the 2022/23 financial year provide a focus on checking the level of implementation of Councils Work Health and Safety framework and the adequacy of Councils human resource policies.

Recommendation

THAT RMAC

1. Endorses the updated internal audit plan; and
2. Notes the progress on the implementation of the Internal audit program.

Background

Internal Audit Program

RMAC has endorsed an internal audit program up to the 2021/22 financial year. The updated internal audit plan provided in Attachment A includes two proposed internal audits for the 2022/23 financial year.

1. An audit of the implementation of the 2019 Work Health and Safety Management Framework

Litchfield Council initiated a Council wide WHS review in 2019 in order to address a Risk Control Action which identified the requirement to undertake a review on the existing health and safety management systems used by Council and to identify and implement new systems as required. This audit will assess the level of implementation and effectiveness of the WHS framework developed as result of the 2019 review.

This audit is linked to the risk profile RP8 – Inadequate Safety and Security Practices with a current risk rating of High and Control Rating of Inadequate.

2. An audit of Councils Human Resource policies for legislative compliance and fit for purpose.

An updated Local Government Act will be enacted in July 2021. A component of this Act requires Councils to adopt a series of HR principles in the form of a policy. This Audit will conduct a desktop review of Council's HR policies to assess if the policies are fit for purpose and compliant with relevant legislation.

The outcome of this audit will inform the risk rating for the risk profile RP16 – Ineffective HR Management / Employment Practices with a current risk rating of Moderate and Control Rating of Adequate.

2019/20 Internal Audit Update

At the March RMAC meeting, the audit of Councils Work Health & Safety Management Systems and compliance with legislation and the resulting Work Health and Safety Management Plan was endorsed to replace the Audit of Mobile Work Force Work Health and Safety procedures and practices as the second internal audit for the 19/20 financial year. The management framework has been finalised and implementation is commencing. In order to progress implementation options to provide additional WHS support to the HR and WHS Adviser are being investigated within current employee budgets.

The Audit of Councils IT Security has been commenced with Councils IT provider Fourier engaged to undertake the review based on the scope of works endorsed at the March 2020 RMAC meeting. The audit will commence mid of May with finalisation by end of June.

Links with Strategic Plan

A Well-Run Council - Good Governance

Legislative and Policy Implications

The internal audit program is consistent with FIN08 Risk Management and FIN09 Risk Management and Audit Committee policies.

Risks

Implementation of the program is part of Councils risk management framework.

Financial Implications

An annual budget of \$30,000 is allocated to the implementation of the internal audit program.

Community Engagement

NIL

Attachment A: 3 year internal audit plan

Internal Audit	Financial Year	Description	Risk Profile	Risk Rating	Control Rating
Audit and review of Council's reserve management arrangements	20/21	Council has been managing Howard Park and Knuckeys reserves since 2015 with five other reserves managed by local associations. This review will examine the reserve management arrangements and make recommendations as to the risks to Council.	RP10 - Ineffective Management of Public Facilities / Venues / Events	Moderate	Inadequate
Audit of compliance with Roads Inspection Regime	20/21	Council has a regime of roads inspection determining intervals, level of inspection and documentation required. The audit will identify if the regime is adhered to and is appropriately mitigating risk for Council.	RP15 - Inadequate Asset Sustainability Practices	High	Inadequate
Records Management processes	21/22	This audit will look at the success of the implementation of the Records Management Improvement Plan. The findings of the audit will inform and provide confirmation of control ratings related to records management risks	RP11 - Inadequate Records Management Processes	Moderate	Adequate
Audit of compliance with Tree Risk Management Plan	21/22	Council has resolved to develop a Tree Risk Management Plan identifying the level, intervals and documentation of tree risk assessment for Council's open space. Development will take place in the 2018/19 financial year. The audit should identify if processes have been sufficiently established and are followed to mitigate risk to Council.	RP10 - Ineffective Management of Public Facilities / Venues / Events	Moderate	Inadequate
Audit of the implementation of the 2019 work health and safety management framework	22/23	Litchfield Council initiated a Council wide WHS review in 2019 in order to address a Risk Control Action which identified the requirement to undertake a review on the existing health and safety management systems used by Council and to identify and implement new systems as required. This audit will assess the level of implementation and effectiveness of the WHS framework developed as result of the 2019 review	RP8 - Inadequate Safety and Security Practices	High	Inadequate
Audit of Councils Human Resource policies for legislative compliance	22/23	An updated Local Government Act will be enacted in July 2021. A component of this Act requires Councils to adopt a series of HR principles in the form of a policy. This Audit will conduct a desktop review of Councils HR policies to assess if the policies are fit for purpose and compliant with relevant legislation. The outcome of this audit will inform the risk rating for the risk profile RP16	RP16 - Ineffective HR Management / Employment Practices	Moderate	Adequate



RMAC REPORT

Agenda Item Number:	8.3
Report Title:	Draft External Audit Plan
Author:	Arun Dias, Finance Manager
Meeting Date:	5/05/2020
Attachments:	A: Draft Audit Plan for 30 June 2020

Purpose

This report provides an update on the expected timelines for completion of Litchfield Council's Audit of 2019-20 Financial Statements, to be performed by Merit Partners.

Summary

In conjunction with the preparation of Litchfield Council's Financial Statements, an external audit will take place with the appointed auditors, Merit Partners. Confirmation has been received with the commencement of the interim audit on 5 May 2020.

Merit Partners will conduct the final audit for the period 7 September to 11 September 2020 with the Audit Report to be complete and available for viewing at the Risk Management and Audit Committee Meeting on 13 October 2020.

Recommendation

THAT RMAC

1. notes the expected timeline for the External Audit of Litchfield Council's Financial Statements; and
2. receives the Merit Partners Draft Audit Plan for the financial year ending 30 June 2020.

Background

Merit Partners Pty Ltd are appointed as Council's External Auditors for a three-year term which commenced in the 2017-18 financial year. This contract will conclude after the audit of the 2019-20 financial year.

As outlined in the table below, Merit Partners have confirmed commencement of the interim audit off-site from 5 May 2020 to allow for ten months of transaction sample testing and internal control testing.

There have been three major changes in the Accounting standards applicable for the 2019-20 financial year and thereafter. These changes are issued by the Australian Accounting Standards Board (AASB) to AASB 9 'Financial Instruments', AASB 16 'Leases' and AASB 15 'Revenue from contracts with customers'.

Changes to AASB 16 Leases and AASB 15 Revenue from contracts with customers will impact Financial Statements for Litchfield Council for year ending 30 June 2020.

AASB 16 'Leases' - changes involve recognising operational leases onto the balance sheet by creating an asset and a corresponding liability (for lease payments) in the balance sheet. Compliance to this standard is subject to materiality and other threshold exemptions. A thorough review of all Council leases is underway to determine the impact of this standard. An initial desktop review indicates Council may not have many leases which would impact the outcome of the financial statements materially and the application of this standard therefore may not have a material impact on Council's financial statements.

AASB 15 whilst initially applicable to 'For-profit' organisations has been extended to 'Not-for-profit' organisations as well. The changes impact accounting for revenue which is received under contract arrangements. The changes require the recognition of revenue subject to completion of 'performance obligations' as stated in the contracts, where if proved to be unsatisfactory or incomplete would mean the recognising of revenue is deferred to a future year when the performance obligation is completed. For Litchfield Council, this could impact accounting for revenue received through operational and capital grants received which is subject to satisfactory completion of 'performance obligations' by Council as of 30 June 2020.

AASB 9 is mainly applicable to financial institutions and banks where financial instruments are to be impaired for future expected losses. An example of a financial instrument relevant to Council would be Rates and General debtors. Changes to AASB 9 are not expected to materially impact Litchfield Council Financial statements for 30 June 2020.

In accordance and complying with AASB 116 'Property, Plant and Equipment', assets carried under the revaluation model require regular revaluations at an interval of three to five years. Council's land assets were last revalued in 2015 and as such are due for a revaluation. Council has engaged a professional land valuer (N.T. Valuations) to undertake comprehensive revaluations for all Council owned land for year ending 30 June 2020.

Merit Partners will be conducting the final audit from 7 September to 11 September 2020, with a view to provide the closing audit report to the audit committee on 13 October 2020.

Preparation of the 30 June 2020 Annual Financial Statements	Start Date	Finish Date	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Interim Audit (offsite audit)	05/05/2020	08/05/2020							
Close off 2019-2020 Creditors Invoices for payment	1/07/2020	15/07/2020							
General Ledger processing Journals	1/07/2020	22/07/2020							
Preparation of the Financial Statements	22/07/2020	14/08/2020							
Draft Financial Statements presented to Executive Team	24/08/2020	24/08/2020							

Preparation of the 30 June 2020 Annual Financial Statements	Start Date	Finish Date	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Final Audit	07/09/2020	11/09/2020							
Audit Closing Report	21/09/2020	02/10/2020							
Financial Statements to be reviewed by Audit Committee	13/10/2020*	13/10/2020*							
CEO signoff followed by Auditor's Report Signoff	14/10/2020	14/10/2020							
Annual Report to be presented to Council	21/10/2020	21/10/2020							
Annual Report to be printed	22/10/2020	05/11/2020							
Delivery to Minster by 15/11/20	05/11/2020	15/11/2020							

*Tentative placeholder date

Proposed timeframe

Critical dates unable to be changed

Links with Strategic Plan

Enabler: A well run Council.

Legislative and Policy Implications

This paper is consistent with FIN09 Risk Management and Audit Committee policy and Accounting Procedures.

Risks

With appropriate time management risk of non-compliance with legislative timeframes has been managed.

Financial Implications







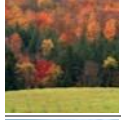

The costs associated with the External Audit are outlined in the Budget 2020-21.

Community Engagement

Not applicable to this report.

Litchfield Council

Audit Plan for the year ending
30 June 2020

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Dear Council Members

We are pleased to present our Audit Plan ("Plan") for the audit of Litchfield Council ("the Council") for the year ending 30 June 2020. This Plan outlines the scope of our services, identifies Merit Partners ("MP") professionals that will serve you and presents our understanding of some key considerations that will affect the 2020 audit.

Our audit is designed to express an opinion on the 2020 full year financial statements. Our Audit Plan has been prepared based on our understanding of the Council's business and the industry it operates in. We have considered and will continue to consider the Council's risks, assess those that could materially affect the financial statements and align our procedures accordingly. Our Audit Plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high quality audit you expect.

We have also included our interim audit findings in this Plan. These findings include our performance improvement observations that seek to assist the Council in enhancing its control environment.

Our commitment to quality will be reflected in every aspect of our work. If you have any questions or comments, please contact myself or Adam White on 8982 1444.

Yours faithfully

Matthew Kennon
Director

Executive summary

Executive summary

Risk assessment and areas of audit focus

As part of our risk assessment process we have held discussions with the Council's management to understand the key changes in the business and adapted our audit approach accordingly. These have been incorporated into our key areas of audit focus.

Our key focus areas have been summarised below and explained in detail on pages 6 – 10. They remain broadly consistent with the prior year:

- Revenue recognition on grants received
- Application of new and future applicable accounting standards
- Accounting for infrastructure, property, plant and equipment
- Compliance with *Australian Accounting Standards*, the *Local Government Act* and other applicable laws and regulations
- Going concern
- Fraud related matters
- Financial reporting implications of Covid-19

Audit approach

Our audit scope, which is based on the size and risk of the Council is set out on page 12. We note the audit coverage remains broadly the same as the prior year.

As in prior years we seek to test IT and manual controls in the key financial statement processes and therefore expect to take a controls based approach wherever possible. Details of our controls based approach is outlined in detail on pages 12 to 15. The nature and extent of our controls testing is dependent on and considers whether the IT general controls environment of the Council is operating effectively. We expect that the IT general controls environment will be assessed as effective.

There continues to be a substantive approach taken to areas of significant management judgement such as:

- Valuation of property, plant and equipment
- Expected credit losses of trade debtors
- Employee provisions

Throughout our audit process, we interact frequently with the Finance Manager.

Materiality

Our audit is planned to obtain reasonable assurance of detecting misstatements that we believe could be, individually or in aggregate, material to the financial statements.

Our planning materiality threshold has been set at \$380,000 after taking into account qualitative and quantitative factors. We will continue to report to the Risk Management and Audit Committee ("RMAC") errors impacting surplus by more than \$19,000.

Your MP team

We have outlined our core audit team who will be involved in delivering our high quality audit service.

Details of our full team are outlined on page 19 of our report.

Independence

We confirm our independence requirements with APES 110 *Code of Ethics for Professional Accountants*, and in our professional judgment, the engagement team and the Firm are independent. We have the appropriate controls in place to ensure we remain independent throughout the audit.

Engagement execution and reporting

We have set out the scope of our audit in on page 23 of our report.

We continue to regularly engage with the Council's finance and management team as part of our audit planning and execution processes. We have set out on Appendix C a summary of our communication and deliverables throughout our audit.

Audit fee

Our audit fee is set out in our engagement letter dated 4 April 2018.



Risk assessment and areas of audit focus

Risk assessment and areas of audit focus

We have set out on this page an overview of the risk assessment process we have conducted as part of our audit planning procedures. Our risk assessment process helps us focus our audit efforts on the Council's key risk areas, being those risks which might lead to a material misstatement in the Council's financial statements, and forms the basis of our overall audit plan. We revisit the appropriateness of our view of risk throughout the audit cycle as the business, economy and industry conditions evolve.

Risk assessment

In order to identify the key business risks of the Council, we have considered the following:

- The Council's strategies and objectives
- The locations in which the Council operates
- Changes in the Local Government Act and Regulations
- Revisiting the risks identified during our 2019 audit process

This involved discussions and input from senior management, drawing on our past experience and knowledge, reference to external data sources, examining the Council's current and proposed accounting and reporting practices and identifying key judgemental areas.

We have prepared a summary of those key risks below and our planned response in the tables that follow.

Areas of audit focus

Revenue recognition

- Revenue recognition on grants received

Adoption of new accounting standards

- Application of new and future applicable accounting standards

Assets

- Accounting for infrastructure, property, plant and equipment

Other

- Compliance with *Australian Accounting Standards*, the *Local Government Act* and other applicable Laws and Regulations
- Going concern
- Fraud related matters
- Financial reporting implications of Covid-19

Risk assessment and areas of audit focus

Areas of audit focus

	Areas of audit focus	Our perspective	Work to be performed
Revenue recognition	Revenue recognition on grants received	<ul style="list-style-type: none"> AASB 15 introduces a new model for the recognition, measurement and disclosure of revenue. Effective 1 January 2019 for NFP entities (comparatives required from 1 January 2018). The standard applies to all existing contracts, and may therefore affect the accounting for contracts already in place at initial adoption. Management will need to: <ul style="list-style-type: none"> Assess the impact of the standard on major revenue streams Identify necessary changes to policies, procedures, controls and systems Determine which performance metrics will be affected Plan for the required AASB 108 disclosures on the impact of new accounting standards which are issued. We anticipate the following revenue streams may be affected: <ul style="list-style-type: none"> Government funding – Commonwealth Government funding – Northern Territory 	<ul style="list-style-type: none"> We will review the Council's revenue recognition policies and procedures against relevant Accounting Standards, including AASB 115, AASB 1058 and AASB 108. We will also review management's assessment of the impact of this new standard and associated accounting entries. We will conduct testing of key controls around the recognition of revenue including revenue cut-off. We will perform substantive testing on a sample of revenue transactions including reviewing the terms and conditions of grants and contracts with customers. We will perform analytical procedures to determine whether balances are in line with our understanding of the Council's operations and other audit evidence gathered.
Adoption of new accounting standards	Application of new and future applicable accounting standards	<p>The <i>Australian Accounting Standards Board</i> (AASB) issued the following new Standards which are deemed applicable to the Council:</p> <ul style="list-style-type: none"> AASB 15 <i>Revenue from Contracts with Customers</i> AASB 1058 <i>Income for not-for-profit entities</i> AASB 16 <i>Leases</i> These standards will be required to be adopted by the Council for the first time in 2019. 	<ul style="list-style-type: none"> We will evaluate the impact of adopting these standards and ascertain whether the requirements of these new standards have been met by the Council. The area most likely to be impacted is grant funding. In addition to the procedures noted above in respect of revenue recognition, we will undertake enquiries into the holding of any leases the Council has that may be impacted by the new AASB 16 standard. If any are noted, we will obtain management's workings of any financial impact caused by the new standard. We will also review a sample of lease agreements and perform our reassessments of the required accounting treatment.

Risk assessment and areas of audit focus

Areas of audit focus

	Areas of audit focus	Our perspective	Work to be performed
Assets	Accounting for infrastructure, property, plant and equipment	<ul style="list-style-type: none"> Lands, buildings and infrastructure assets dominate the Council's fixed assets and balance sheet and the total carrying value of these assets at 30 June 2019 was \$309 million. These assets were valued at depreciated current replacement costs based on the valuation report dated 1 July 2018. We understand the Council will not subject these fixed assets to an independent valuation as at 30 June 2020, as a valuation was undertaken in 2018. The Council however will need to ensure that the 2018 valuation is still applicable for the year ended 30 June 2020. It is also expected that the accounting of fixed assets will be impacted by the following likely risks: <ul style="list-style-type: none"> the useful life assumptions used in the valuation reports not being reflective of up to date information maintained in the Council's asset management systems. Inappropriate depreciation rates. The integrity of the classification of maintenance and/or capital expenditure is critical given the nature and useful life of work carried out. This is particularly relevant to expenditure incurred on infrastructure assets. 	<ul style="list-style-type: none"> We will follow up on the Council's assessment of the valuation of the assets at year-end. Fixed assets' useful lives and depreciation rates will be reviewed based on the revaluation report received from the external valuer in 2018 and we will review management's assessment of impairment. We will also obtain and review the Council's fixed assets register and agree this to the general ledger balances. A sample of additions and disposals will be checked against related support, procurement guidelines and policies. We will also review related repairs and maintenance accounts to ascertain that relevant transactions of a capital nature have not been omitted from being capitalised. It should be pointed out that any changes to the Council operations may have an impact on the recoverability of assets. We will continue to monitor the recoverability of assets at year-end and assess whether adequate impairment allowance is recognised.

Risk assessment and areas of audit focus

Areas of audit focus

	Areas of audit focus	Explanation	Work to be performed
Other	Compliance with <i>Australian Accounting Standards</i> , the <i>Local Government Act</i> and other applicable Laws and Regulations	<ul style="list-style-type: none"> Changes to Australian Accounting Standards and regulatory requirements may have an impact on the Council's financial reporting requirements. The continuous close monitoring from regulators will also impact the Council's operations. Regulatory breaches may result in restrictions being placed on the Council that will make operations unviable. 	<ul style="list-style-type: none"> We will perform audit procedures over year end reconciliations and review the financial statements in accordance with Australian Accounting Standards, the <i>Local Government Act (NT)</i> and other applicable laws and regulations. We will also follow up on any compliance audits undertaken by regulators.
	Going concern	<ul style="list-style-type: none"> The Council, under the mandates and provisions of <i>NT Local Government Act</i>, is expected to operate as a going concern as it is mandated to provide essential services/needs to the community in the Litchfield region. These services included but are not limited to maintenance of roads, parks and recreation facilities, waste and recycling, animal management, cemeteries, etc. The core revenue of the Council is from rates, statutory charges and user charges and fees, which comprises about 60% - 70% of the Council's total revenue. In addition, the Council is also expected to receive program funds from the Commonwealth and NT Governments. It is also expected that the Council will have high liquid assets that will be able to support its operations in the next 12 months. 	<ul style="list-style-type: none"> We will review the Council's financial statements including its revenue streams and note the following: <ul style="list-style-type: none"> the performance of the core revenue of the Council such as rates, statutory charges and user charges and fees against the budget and expectations; the Council's ability to receive funds from the Commonwealth and NT Governments in the 12 months from the date of the 2020 audit report and beyond. We will also review the Council's minutes of meetings to account for any events that could impact the viability of the Council's operations in the future. In addition, we will review the Council's business plans, budgets and cash flow forecasts. We will obtain an understanding of management's assessment of the Council in relation to the Council's ability to continue is a going concern, and ascertain its reasonableness.
	Fraud related matters	<ul style="list-style-type: none"> Increased occurrences of fraud may result in significant losses to the Council if controls in place are not effective. The impact of fraud may become material to the Council's financial statements. 	<ul style="list-style-type: none"> We will continue to assess the impact of fraud on the Council's operations and the effectiveness of controls in place to prevent and detect fraud.
	Financial reporting implications of Covid-19	<ul style="list-style-type: none"> The uncertainty regarding Covid-19 is creating risks that entities may not have encountered before. As a result, the Council should assess whether and how they are affected, and the impact on their financial statements. In our opinion, the uncertainty around Covid-19 may create risks to the following financial statement areas: <ul style="list-style-type: none"> Impairment of assets Change in fair value of assets Changes in expected credit losses of financial assets Material uncertainty regarding the Council's ability to continue as a going concern The Council should also consider the indirect impacts of Covid-19. 	<ul style="list-style-type: none"> These financial impacts are likely to involve accounting estimates prepared by management. We will obtain any estimates provided by management as part of this process, ascertain its reasonableness and perform recalculations and sensitivity analysis where appropriate.

Risk assessment and areas of audit focus

Other areas of focus

Apart from the above areas of audit focus, below are other key audit and accounting issues that will be considered during our audit:

Areas of audit focus	Work to be performed
Land under roads	<ul style="list-style-type: none"> The Council's management is of the opinion that it is not possible to attribute value sufficiently reliable to qualify for recognition, and has not recorded land under roads. The Council's election is in line with AASB 1051 <i>Land Under Roads</i> paragraphs 8 and 9 which states that: <ul style="list-style-type: none"> "8 - An entity may elect to recognise (including continue to recognise or to recognise for the first time), subject to satisfaction of the asset recognition criteria, or not to recognise (including continue not to recognise or to derecognise) as an asset, land under roads acquired before the end of the first reporting period ending on or after 31 December 2007. 9 - An entity shall make a final election under paragraph 8 effective as at the first day of the next reporting period following the end of the first reporting period ending on or after 31 December 2007. Any adjustments that arise from a final election that is made effective as at that first day shall be made against the opening balance of accumulated surplus (deficiency) of that next reporting period." Whilst the Council's election is in line with AASB 1051, we will re-evaluate its opinion in relation to land under roads and assess whether a reliable form of market data is available to record the land. We will also assess whether there is any new land under road acquired during the financial year.
Restricted reserves	<ul style="list-style-type: none"> We will obtain and review the Council's support over restricted cash and reserve accounts. We will review and test the accuracy of the information within the accounts to relevant support and approval for use of the restricted reserves and undertake a review of budgets and funding agreements to ascertain that balances are complete at reporting date.

A person is silhouetted while sitting on a wooden pier, looking out over a calm body of water. The sun is low on the horizon, creating a bright, golden glow that reflects on the water's surface. In the background, a range of mountains is visible under the soft light of the sunset. The pier is made of wooden planks and has several vertical posts.

Audit approach

Audit approach

An effective audit approach

Our audit of the Council is primarily designed to enable us to express an opinion that the general purpose financial report of the Council for the year ending 30 June 2020 presents fairly, in all material respects, the Council's financial position and financial performance in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Local Government Act 2008* and Local Government (Accounting) Regulations.

Similarly, our audit of Thorak Regional Cemetery (the "Cemetery") is primarily designed to enable us to express an opinion that the special purpose financial report of the Cemetery for the year ending 30 June 2020 presents fairly, in all material respects, the Cemetery's financial position and financial performance in accordance with the adopted accounting policies and the *Cemetery Act (NT) 2016*.

The specific terms and scope of the external audit engagement are set out in our engagement letter dated 4 April 2018.

Controls reliance

Our audit has been designed to obtain a significant degree of audit comfort from reliance on and testing of internal controls. This approach of understanding and evaluating controls is risk based and structured on a foundation of the Council having a strong control environment framework.

In accordance with Australian Auditing Standards, the external auditor must gain an understanding of the internal controls relevant to the audit. Specifically, this assessment must cover:

- The control environment
- The Council's risk assessment procedures
- Control activities (including IT general controls)
- Monitoring of controls (internal audit and self-assessment).

Where significant deficiencies come to our attention during the course of our audit, we will communicate these to the Risk Management and Audit Committee and management in a timely manner. We will also provide management an internal control letter during the audit process, outlining our findings and our recommendations on where improvements can be made.

We will revisit our 2019 control findings during our audit to ensure that management's responses/actions have been implemented during the year as agreed.

IT general controls

In conducting our work, we intend to place reliance on the IT systems across the Council, based on the significant accounts supported by these systems. Evaluating IT general controls ("ITGCs") is an integral part of our audit in

assessing the controls that underpin financially significant systems and support the confidentiality, integrity and availability of information processing. Our evaluation of ITGCs focuses on two key areas:

Area	Description
Access to programs and data	Controls are in place to determine that only authorised persons have access to data and applications (including programs, tables, and related resources) and that they can perform only specifically authorised functions.
Change management	Controls are in place to determine that only appropriately authorised, tested, and approved changes are made to applications, interfaces, databases, and operating systems.

In the absence of effective ITGCs, reliance cannot be placed on system based controls or the data they produce.

Based on our discussions with management and a preliminary review of the Council's IT environment we have outlined below a summary of our expected reliance on the key IT systems that underpin the Council's significant accounting processes:

	Business process	Change management		Logical access	
		2020	2019	2020	2019
Authority	General Ledger, Bank Reconciliation, Receivables Module, Payable Module, Asset Module, Payroll Module, Rates	✓	■	✓	■

- ✓ In scope for 2020 IT general controls procedures
- ✗ Not in scope for 2020 IT general controls procedures
- Full reliance, controls were designed and operated effectively during the audit period
- Full control reliance however, additional procedures were required to address issues identified
- No reliance on IT general controls due to previous issues noted
- Not applicable based on audit strategy

The Council's core accounting system, Authority, is maintained by Fourier, a third party service provider. The services provided by Fourier include among others, supply, installation, configuration, maintenance and administration of the accounting system.

Given there were no significant issues identified in prior years and in the interim audit, we plan to take an IT General Controls reliance approach. We therefore plan to test and rely on IT application controls.

Audit approach

Approach to key financial statement processes

We will consider the IT general control environment for the Authority system, which drives the financial statement close process, accounts receivable and accounts payable processes. In previous financial years we have assessed it to be generally effective.

In the absence of an effective ITGC, reliance cannot be placed on the Authority system based controls or the data it produces without significant alternate procedures being performed around verifying the integrity and accuracy of any report generated from Authority. This would include testing a sample of transactions or data contained in the reports and vouching to supporting documentation as well as checking the report for clerical accuracy. For application or IT dependent manual controls, we will be required to extend our testing sample size from 1 to 25 depending on the frequency of the control.

As above, we expect to rely on the Council's IT general controls, and therefore test IT application controls in the following key processes:

- Billings and collection (rates and user charges)

We support our IT general controls testing with manual controls testing in the following processes:

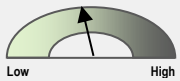
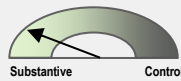
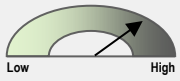
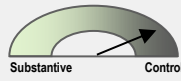
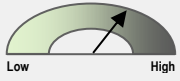
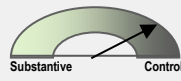
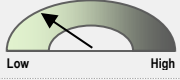
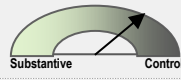

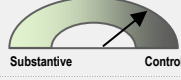


- Procurement/Purchases and payments
- Payroll
- Grants and other revenue streams and receipts

In the course of any audit, there are areas where a controls reliance approach is not appropriate and where a substantive audit approach is more efficient or effective. Significant or judgemental balances that we audit substantively are:

- Valuation of financial and non-financial assets
- Employee provisions
- Any other provisions

As the Council continues to improve the process controls we will review our approach and rely on controls where possible. We have set out to the right a table which summarises the level of controls reliance we expect to achieve in the key financial statements processes.

Approach to key financial statement processes (continued)

Process	IT reliance	Controls reliance
Financial statement close		
Revenue and receivables		
Purchases and payables		
Cash receipts and payments		
Payroll		
Regulatory compliance		

Audit approach

Risk of fraud or error

The primary responsibility for the prevention and detection of fraud and error rests with those charged with the governance and management of the Council. The Council has an active program for the prevention and detection of fraud which also involves internal audit.

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it so as to ascertain that the financial statements are free from material misstatement resulting from fraud. However, it is important to note that while our external audit work is not primarily directed towards the detection of fraud or other irregularities, we will report any matters identified during the course of our work.

Approach to fraud risks

Identifying and evaluating controls implemented by management to address fraud, including those in respect of related party transactions.

Tests of operating effectiveness of identified fraud controls.

Reviewing processes in place designed to ensure that transactions are appropriately approved and recorded in the accounting records of the Council.

One on one discussions with key staff.

Substantive audit of manual journals including use of data analytic techniques to identify any significant unusual journals.

Audit and challenge of judgemental areas with sufficient level of professional scepticism and involvement of senior team members.

Review internal audit reports and consideration of findings.

We will conduct our audit in accordance with Australian Auditing Standards and the financial reporting requirements of the *Local Government Act 2008* and Local Government (Accounting) Regulations for the general purpose financial statements of the Council.

Other opinions

Thorak Regional Cemetery: We will conduct our audit in accordance with Australian Auditing Standards and the *Cemetery Act (NT) 2016* for the special purpose financial statements of Thorak Regional Cemetery.

We will also audit the special purpose financial report of the Council's road to recovery returns grant program in accordance with the reporting requirements of the funding body.

Opinions to be issued

Audit of the full year financial statements

Our audit will be conducted to provide reasonable assurance as to whether the financial report for the year ending 30 June 2020 is free of material misstatement.

Audit approach

Overall audit approach

Activity	Planning and risk assessment	Testing	Completion
Objectives	<ul style="list-style-type: none"> Perform risk assessments Determine critical accounting matters Plan audit procedures Evaluate fraud risk in financial reporting Understand accounting and reporting activities 	<ul style="list-style-type: none"> Test operating effectiveness of key controls with sample sizes based on frequency and nature of controls Assess control risk and the risk of significant misstatement Perform substantive audit procedures Audit non-routine transactions and re-assess the risk of misstatement Consider if audit evidence is sufficient and appropriate 	<ul style="list-style-type: none"> Evaluate and report audit findings Form and issue audit opinion
Activities	<ul style="list-style-type: none"> Update our understanding of the Council's business via discussions with executive management Assess risks and identify general ledger accounts requiring audit focus Assess materiality having regard to business forecasts Undertake analytical review and assess key accounting issues Discuss key processes and controls relevant to "significant general ledger accounts" Test the design and implementation of controls 	<ul style="list-style-type: none"> Perform testing on complex and non-routine transactions Perform other tests to supplement controls testing Audit financial statement disclosures 	<ul style="list-style-type: none"> Resolve judgemental issues identified during the audit Evaluate the Council's financial statements Summarise key findings and report to management and the RMAC Members
Deliverables	<ul style="list-style-type: none"> Feedback on pro-forma Financial Report pre year end (if prepared) Audit Plan 	<ul style="list-style-type: none"> Summary of adjusted and unadjusted audit differences for consideration by management including significant deficiencies in internal controls Draft report to the RMAC Draft Audit closing report 	<ul style="list-style-type: none"> Audit opinions and applicable independence declarations Full year report to the RMAC Attendance at the RMAC meeting

Materiality

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Materiality

We design our audit procedures to obtain reasonable assurance that errors in the financial statements are not material individually or in aggregate. Errors are considered to be material if, individually or in aggregate, they could reasonably be expected to influence readers of the financial statements. Our materiality is set at \$380,000 but we will report identified errors in excess of \$19,000.

Materiality is used to determine the nature and extent of our audit procedures. AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* states that 'omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements'.

Our planning materiality for the 2020 audit is based upon 2% of extrapolated total revenue of \$19 million. Our materiality levels are set out in the table below:

Detail \$	2020 Audit estimate	2019 Audit actual
Total revenue	19 million	23 million
Planning materiality – 2% (2019: 2%)	380,000	466,000
Threshold for reporting audit and review differences	19,000	23,300

As a matter of course, all identified audit and review differences in excess of \$19,000 will be brought to the attention of the Council for further consideration and action as appropriate. We will communicate to you any of these audit differences that are not adjusted by management, as well as significant corrected misstatements.

We will regularly review the level of materiality throughout the engagement and where a change is necessary we will advise the Risk Management and Audit Committee accordingly.

Your MP team

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Your MP team

Your audit team for 2020 provides continuity and fresh ideas. This helps to ensure that we build on previous experience and make the audit process as smooth as possible.

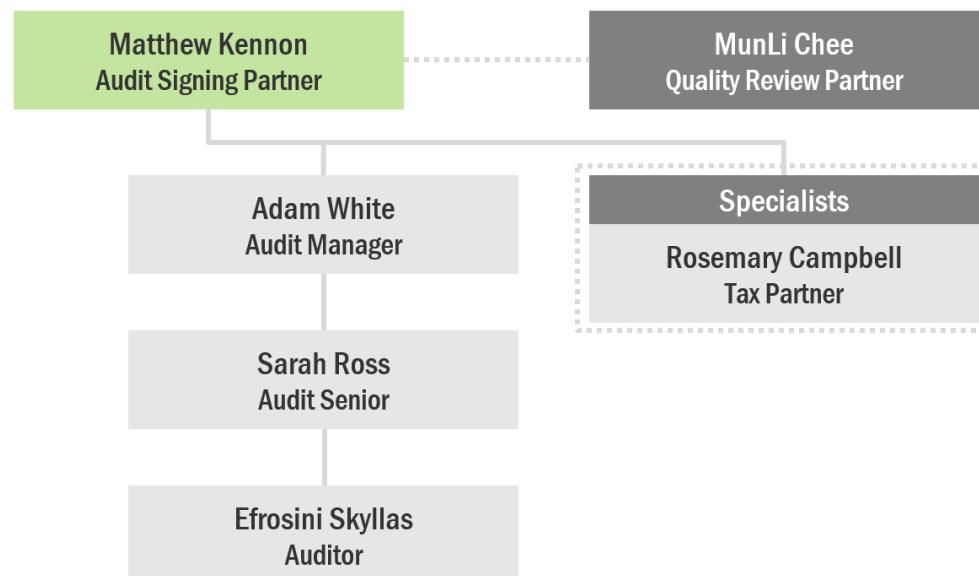
Your MP team

We understand that our team is the most important element of your relationship with us. We have effectively balanced the ongoing continuity of our core team with the input of innovation and fresh insights.

Our team has been involved in the audit of the Council for three years. This stability provides the Council with continuity, historical knowledge of your business and industry expertise. These combined factors enable us to focus on the significant issues facing your business. Further we have incorporated experts from our Taxation Advisory and Business Services division to assist us should a need arise.

Partner and director rotation

In addition to it being a regulatory requirement, we believe that the periodic rotation of the key decision makers on the audit assists with maintaining our independence and bringing a fresh view. We actively plan rotation well in advance of the required rotation period to ensure that the Council benefits from a smooth transition.



Independence

Independence

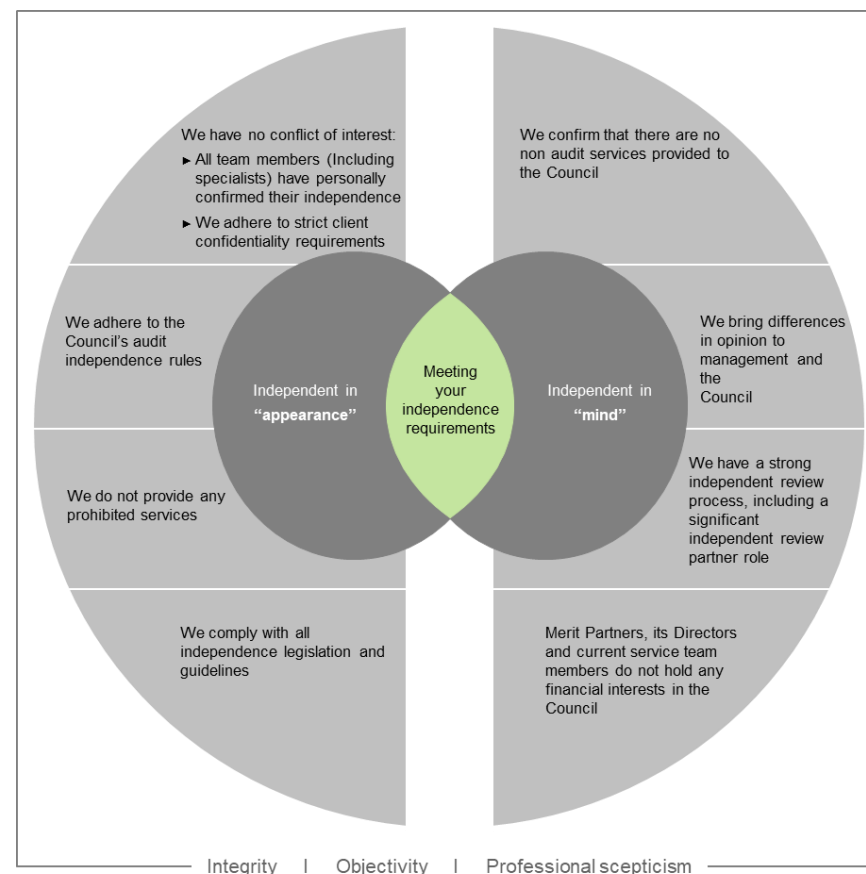
We are committed to being and being seen to be independent. There are no matters that, in our professional judgement, bear on our independence which need to be disclosed to the Council.

We understand the importance of independence to you. We have been rigorous in maintaining our independence and managing conflicts. We will remain independent, and be seen to be independent.

Independence is fundamental to Merit Partners as our ongoing reputation and success is connected to our ability to meet both the Council's and broader regulatory independence requirements.

We have consistently complied with all professional regulations relating to auditor independence including those outlined in APES 110 *Code of Ethics for Professional Accountants*.

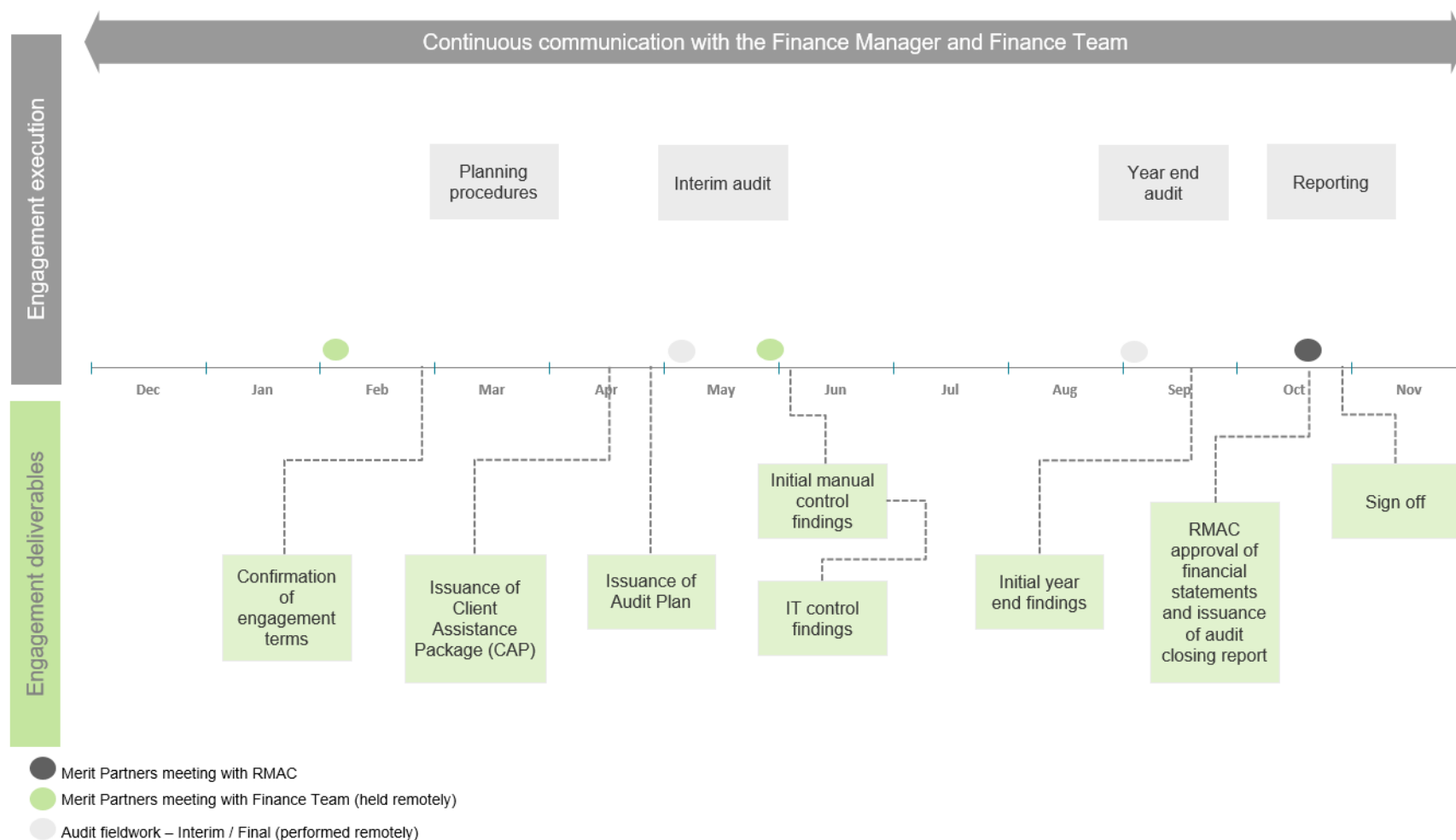
Accordingly, we ensure that there are controls in place and actions taken on a regular basis that mitigate any risks to our independence.



Engagement execution and reporting

Engagement execution and reporting

We recognise that regular, timely communication with management and the Risk Management and Audit Committee is critical to maintaining an effective and transparent relationship. Our audit process operates throughout the year so that we can respond to issues as they arise and maintain close communication, with management and the Risk Management and Audit Committee, as the audit cycle progresses.



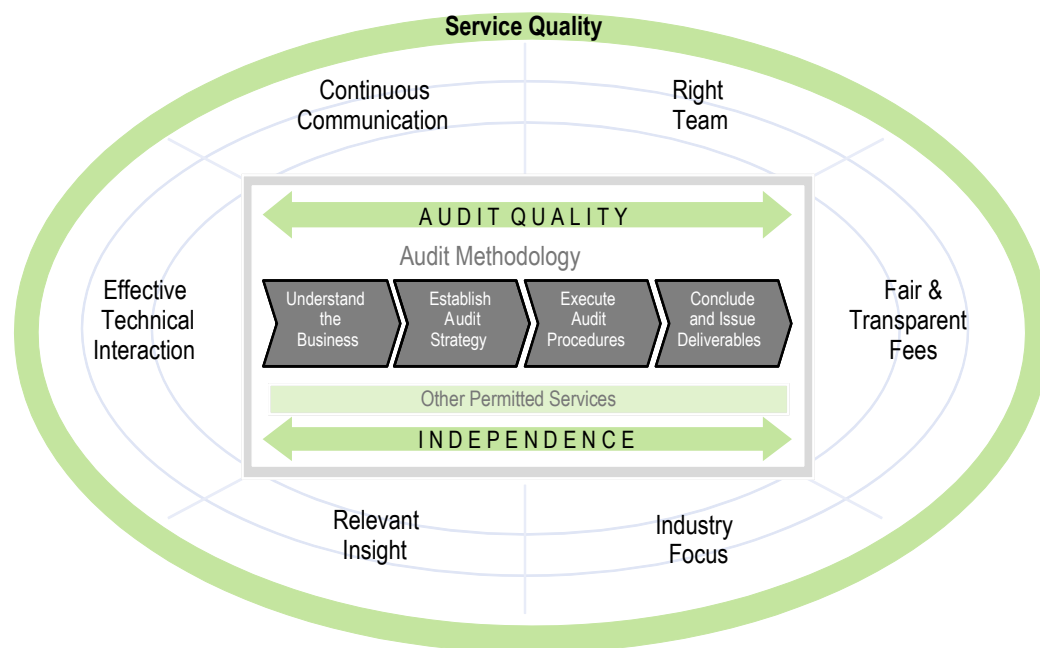
Appendices

Appendix A –Effective audit approach

Our audit methodology is designed to ensure audit quality is maintained on the Council's audit. Our audit of the Council will be in 4 key stages:

- Updating our understanding of the Council and its risks
- Designing our audit work to ensure that it is focused on the areas where the risk of material misstatement is highest, after considering our understanding of the Council's entity level controls
- Testing the design and operating effectiveness of key controls (including IT controls) and executing our substantive audit procedures
- Completing an overall review of the financial statements including an assessment of audit differences and internal control deficiencies and issuing our audit report and related closing report.

Throughout the above process we will be committed to providing fair and transparent fees, industry focus, relevant insight, effective technical interaction and continuous communication.



Appendix B – Financial statement opinions

Audit of the full year financial statements

Our audit will be conducted to provide reasonable assurance as to whether the financial report for the year ending 30 June 2020 is free of material misstatement. We conduct our audit in accordance with Australian Auditing Standards and the requirements of the *Local Government Act 2008* and Local Government (Accounting) Regulations.

Other audit opinions

We will audit the financial statements of the controlled entity listed below for the relevant year end as required by the *Cemetery Act (NT) 2016* and other requirements.

Entity name	Type of financial statements
Thorak Regional Cemetery	Special Purpose

Appendix C – Communication with those charged with governance

Matter	Required communication	Reference
Terms of engagement	<ul style="list-style-type: none"> Confirmation by Management of acceptance of terms of engagement Merit Partners to provide a copy of the engagement letter 	Engagement letter
Planning and audit approach	<ul style="list-style-type: none"> Communication of the planned scope and timing of the audit including any limitations 	Audit Plan
Significant audit findings	<ul style="list-style-type: none"> Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with Management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process 	Audit Closing Report
Misstatements	<ul style="list-style-type: none"> Uncorrected misstatements and their effect on our audit opinion The effect of uncorrected misstatements related to prior periods A request that any uncorrected misstatement be corrected In writing, corrected misstatements that are significant 	Audit Closing Report
Fraud	<ul style="list-style-type: none"> Enquiries of the Risk Management and Audit Committee/those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity Any fraud that we have identified or information we have obtained that indicates that a fraud may exist A discussion of any other matters related to fraud 	Audit Closing Report
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Closing Report
Consideration of laws and regulations	<ul style="list-style-type: none"> Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional Enquiry of Risk Management and Audit Committee / those charged with governance into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that they may be aware of 	Audit Closing Report

Matter	Required communication	Reference
Independence	<ul style="list-style-type: none"> Confirmation that we have complied with APES 110 <i>Code of Ethics for Professional Accountants</i>. In the case of listed entities the auditor shall communicate with those charged with governance: <ul style="list-style-type: none"> A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgement, may reasonably be thought to bear on independence. The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. 	Audit Plan and Audit Closing Report
Going concern	<ul style="list-style-type: none"> Events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern, including: <ul style="list-style-type: none"> Whether the events or conditions constitute a material uncertainty Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements The adequacy of related disclosures in the financial statements. 	Audit Closing Report
Control findings	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit Closing Report

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RMAC REPORT

Agenda Item Number:	8.4
Report Title:	DRAFT FIN01 Asset Disposal
Author:	Silke Maynard, Director Community and Corporate Services
Meeting Date:	5/05/2020
Attachments:	A: DRAFT FIN01 Asset Disposal policy

Purpose

To present DRAFT FIN01 Asset Disposal policy (attached) to RMAC for endorsement prior to presentation to Council for adoption.

Summary

FIN01 Asset Disposal policy was last adopted by Council on December 2017. This updated draft removes:

- the ability to dispose of assets directly to Council Officers, and
- references to specific sections of the Local Government Act.

Following endorsement by RMAC the policy will be presented to Council for adoption.

Recommendation

THAT RMAC endorses DRAFT FIN01 Asset Disposal policy for presentation to Council for adoption.

Background

The *Local Government Act* identifies that the role of the CEO is to “ensure that the Council’s assets and resources are properly managed and maintained”. FIN01 Asset Disposal policy forms part of Council’s internal controls that contribute to transparency and good governance.

Removal of direct sale to Council Officers will remove any opportunity for misconduct.

Removal of references to specific sections of the *Local Government Act* will ensure a smooth transition once the updated Act comes into effect in July 2021.

Links with Strategic Plan

A Well-Run Council - Good Governance

Legislative and Policy Implications

Policy is consistent with the *Local Government Act*

Risks

Nil

Financial Implications

Nil

Community Engagement

Nil

Asset Disposal **POLICY FIN01**

Name	FIN01 Asset Disposal
Policy Type	Council
Responsible Officer	Director Community and Corporate Services
Approval Date	[Approval Date]
Review Date	[Review Date]

1. Purpose

This policy governs the disposal of Litchfield Council assets including the disposal of land.

The purpose of this policy is to provide unambiguous and transparent direction for the disposal of assets to:

- Promote fair and effective competition to the greatest possible extent;
- Consider any potential benefit to the community;
- Ensure best value for money is achieved; and
- Ensure the same accountability for disposal of assets that of purchasing assets.

2. Scope

This policy applies to the disposal of all Council assets

3. Definitions

For the purposes of this Policy, the following definitions apply:

Term	Definition
Asset	An asset is a resource controlled by Council as a result of past events and from which future economic benefits are expected to flow to the entity for more than 12 months. Assets include tangible items like property, plant and equipment and intangible assets like software.
Useful life	The useful life of an asset is the period over which an asset is expected to be available for use by Council.
Depreciable amount	The depreciable amount is the cost of an asset, or fair value less its residual value.
Residual value	The residual value is the estimated amount that Council would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

4. Policy Statement**4.1. Principles**

This policy follows the accounting treatment set out in AASB140 (Investment Property) and AASB116 (Property, Plant & Equipment), as well as other legislative requirements. Asset de-recognition occurs on disposal or when no future economic benefit is expected from an asset.

4.2. Reasons for Disposal

The following practices of disposal are approved by Council:

- Open tender
- Disposal due to renewal
- Quotation sought by officers for external party to sell on behalf of council
- Selected tender
- ~~Direct sale to Council officers~~
- Other means directed by council

The following items should be considered selecting the method of disposal:

- Potential to obtain best price;
- Number of known potential purchasers;
- Current and possible preferred future use of the asset;
- Opportunity to promote local economic growth and development;
- Total estimated value of the sale;
- Delegation limits taking into consideration accountability, responsibility, operational efficiency and urgency of the sale;
- Compliance with statutory and other obligations.

4.3. Approval for Disposal

Council has delegated authority for disposal of assets, except the sale of land, under **section 32** of the *Local Government Act* to the Chief Executive Officer as documented in the delegation manual.

Approval of disposal of assets shall be sought in line with the delegation manual in writing and should include the following information as a minimum:

- Identification of asset (linkage to financial asset register)
- Reason for disposal
- Method of disposal

- Timeframe of disposal
- Application of proceeds

Property which has been purchased, or the purchase of which has been contributed to, by a funding source, may not be disposed of unless the terms of the funding agreement have been met. This includes any requirement to gain approval from the funding body to dispose of property.

4.4. Proceeds from Sale of Assets

Proceeds from the sale of assets should be applied to a particular purpose:

- Reduction of any debt associated with the asset acquisition or upgrade since the original purchase or construction
- Offset of cost of replacement assets required for operations arising from the asset sale
- Specific Reserve Fund
- Other specific purpose as determined by Council resolution

4.5. Financial Recognition of Disposal

When an asset is sold and its selling price varies from the carrying amount in Council's balance sheet, a gain or loss on disposal will be recognised directly to the Income Statement in accordance with AASB 140 or AASB 116 respectively.

If an asset is derecognised before it has been fully depreciated, the carrying amount represents a loss on disposal and will be expensed.

Where an asset disposed of has been subject to revaluation, the net increment in the asset revaluation reserve relating to the disposed asset will be transferred to Accumulated Surplus. The amount transferred must not exceed the balance of the asset revaluation.

Partial disposal of an asset is recognised if a partial renewal/replacement has taken place and the carrying value of that disposed part in regards to AASB 116 can be identified.

Alternatively, if the fair value of the replaced part cannot be identified, the cost of the replacement is added in the carrying amount of the asset and the fair value shall be reassessed at revaluation.

5. Associated Documents

Litchfield Council Financial Policies and Procedures

Litchfield Delegation Manual

6. References and Legislation

Northern Territory Local Government Act

Northern Territory Local Government (Administration) Regulations

Northern Territory Local Government (Accounting) Regulations

Australian Accounting Standards

Ministerial Guidelines

7. Review History

Date Reviewed	Description of changes (Inc Decision No. if applicable)
This Review	<u>Removing option of direct sale to officers</u>
13 December 2017	New policy, rescinding policy LC31 and LC37



RMAC REPORT

Agenda Item Number:	8.5.
Report Title:	DRAFT FIN08 Risk Management Policy
Author:	David Jan, Governance and Risk Advisor
Meeting Date:	5/05/2020
Attachments:	A: DRAFT FIN08 Risk Management policy

Purpose

To present DRAFT FIN08 Risk Management policy for review.

Summary

DRAFT FIN08 Risk Management policy (Attachment A) has been reviewed with minor edits recommended (highlighted).

The key update to the policy is the removal of the requirement to review the policy annually to be replaced with reference to Councils internal audit plan and annual audit of financial statements.

Recommendation

THAT RMAC endorse DRAFT FIN08 Risk Management policy for presentation for Council approval.

Background

GOV01 Policy Framework requires that policies are reviewed at least every four years or once per term of Council. The current clause (4.6.1) that requires the policy to be reviewed annually is at odds with GOV01 and has been replaced with a reference to Councils internal audit plan which provides the mechanism to monitor and review internal controls as well as reference to Councils annual financial audit which also provides an annual audit of financial controls. Policies can be reviewed more frequently as required.

FIN08 was last reviewed in November 2016 prior to Council endorsement of GOV01. The policy confirms Councils commitment to risk management.

Links with Strategic Plan

A Well-Run Council - Good Governance

Legislative and Policy Implications

FIN08 ensures a framework is in place which facilitates legislative compliance

Risks

Nil

Financial Implications

Nil

Community Engagement

Nil

Risk Management **POLICY FIN08**

Name	FIN08 Risk Management
Policy Type	Council
Responsible Officer	Chief Executive Officer
Approval Date	[Approval Date]
Review Date	[Review Date]

1. Purpose

Risk Management is an important part of Litchfield Council's corporate governance and covers areas such as strategic management, internal controls, business development, project management, finance, etc. It comprises procedures to mitigate risks and provide reasonable assurance that operations are efficient and effective, assets are safeguarded, legislation and council policies/rulings are complied with and financial reporting is accurate and reliable. Effective risk management in Council operations is critical in achieving its goals and objectives.

2. Scope

This policy applies to all Council officers and Elected Members.

3. Definitions

For the purposes of this Policy, the following definitions apply:

Risk	The effect of uncertainty on objectives.
Risk Management	A coordinated set of activities and methods that is used to direct an organisation and to control the many risks that can affect its ability to achieve objectives.

4. Policy Statement

Council is committed to maintaining an effective risk management environment. This policy is based on the following principles:

- Managing risks relating to the stewardship of public resources requires effective internal controls.
- Council requires a framework for an effective risk management system which conveys to managers that they are responsible for ensuring that risks are identified, controls are established, documented, maintained and adhered to across the council and to all employees that they are responsible for adhering to those controls.
- Council must ensure the propriety of transactions, information integrity, compliance with regulations and achievement of Council objectives through operational efficiency

4.1. The Risk Management Process

The process followed by Council in developing the framework shall be based on Australian/New Zealand Standard AS/NZS ISO 31000:2009.

- 4.1.1. Establish Goals & Context – Effective risk management requires a thorough understanding of the goals and context of Council to assist in establishing the assessment criteria for risk management.
- 4.1.2. Identify Risks – Identify the risks most likely to impact on the achievement of Council's objectives.
- 4.1.3. Analyse Risks – Assess effectiveness of risks in terms of likelihood and consequence to identify the current risk level.
- 4.1.4. Evaluate Risks – Determine whether the risks are acceptable or unacceptable and document findings.
- 4.1.5. Treat Risks – Treat risks by one of the following methods - discontinuing activity that generates it, reducing likelihood of occurrence, reducing consequence of occurrence, transfer the risk or retain the risk.
- 4.1.6. Consultation/Communication – These are important elements to ensure that all stakeholders understand why actions are required. These stakeholders include all staff and elected members.
- 4.1.7. Monitor/Review – Responsible officers must be identified for each internal control and provide feedback to managers on progress with controls. The Managers monitor the effectiveness of risk treatments and report progress to the Senior Management Team and the Audit Committee at regular intervals.

4.2 Risk Management Approach

- 4.2.1 Council will maintain an internal control framework, which will be based upon a pro-active risk management culture.
- 4.2.2 The types of risks identified in the framework will be those which may prevent council from meeting its objectives or not maximising its opportunities.
- 4.2.3 It is recognised that all risks cannot be eliminated, however the internal controls applied should reduce the likelihood of the risk occurring to within acceptable limits of risk.
- 4.2.4 Council will develop a culture that emphasises integrity, ethical values and competence.

4.3 Roles and Responsibilities

- 4.3.1 The Chief Executive Officer is responsible for establishing Internal Controls and associated framework, which ensures Council objectives are achieved efficiently and effectively as required by Local Government (Accounting) Regulations section 10(1). Updates on changes to the framework will be presented to the Internal Audit Committee before being presented to Council for adoption.

- 4.3.2 The Chief Executive Officer must adopt a risk management approach to identifying and assessing risks and apply cost/benefit analysis in the development of internal controls and is responsible for ensuring Council employees conduct their duties in accordance with internal control policies, procedures and practices of Council.

4.4 Elements of the Internal Control Framework

The essential elements of an effective internal control framework are:

- Structure and culture of Council;
- Delegations of Authority;
- Policies and procedures;
- Trained and properly qualified staff;
- Information Technology controls;
- Review process e.g. internal audit;
- Liaison with auditors and legal advisors;
- Senior Management compliance assurance;
- Risk identification and assessment.

4.5 Accounting and Policy Manual

Section 9 of the Local Government (Accounting) Regulations prescribes that a council must maintain an accounting and policy manual.

The manual must include, or incorporate by reference, the following:

- a) an organisation chart showing the functions of the council, its committees and responsible officers;
- b) a statement of the duties and responsibilities of the CEO and responsible officers;
- c) a statement of the principal accounting policies of the council;
- d) information about the timing and content of financial management reports to the council and the CEO;
- e) a statement of the procedures the council considers necessary to facilitate the timely preparation of the council's annual financial statement;
- f) the information necessary to ensure the proper operation of any computer-based accounting system in use;
- g) details of all administrative and accounting procedures, policies and delegations of authority, including:
 - i) details of internal control procedures; and

- ii) details of personnel and financial delegations; and
- iii) a chart of accounts divided into assets, liabilities, income, expenses and council equity accounts; and
- iv) procedures relating to the receipt and banking of money, the payment of salaries and wages, the allocation of machinery operating costs to council functions, the purchase of goods and services and the granting of credit to council debtors.

4.6 Review of Internal Controls Framework

4.6.1 This Policy will be reviewed annually. Council will establish an internal audit plan to review internal controls.

4.6.2 The annual audit of financial statements provides review of internal controls.

4.6.3 The Litchfield Council Accounting and Policy Manual will be reviewed at least every twelve months following the annual financial audit to ensure all controls are current and appropriate. The Chief Executive Officer will inform the Risk Management and Internal Audit Committee of each review and update on progress with action plans identified during the reviews.

5. Associated Documents

Litchfield Council Policies

Litchfield Council Risk Management Governance Framework

6. References and Legislation

Local Government Act and associated Regulations and Ministerial Guidelines

Australian/New Zealand Standard AS/NZS ISO 31000:2009

7. Review History

Date Reviewed	Description of changes (Inc Decision No. if applicable)
<u>This Review</u>	<u>Remove requirement for annual review</u>
16/11/2016	Policy amended (16/0248)
19/11/2015	Policy Adopted

9. Other Business

10. Confidential Items

11 Close of Meeting