

MINUTES

AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING

held in the Guringai Room, Civic Centre, Dee Why on

TUESDAY 3 SEPTEMBER 2019

Commencing at 9:30am

**Minutes of the Audit, Risk and Improvement
Committee Meeting held on Tuesday 3 September 2019
in the Guringai Room, Civic Centre, Dee Why**

ATTENDANCE:

Voting Members of the Committee

Mr Stephen Horne (Chair)
Mr Mark McCoy
Ms Julie Walton
Cr Sarah Grattan
Cr Sue Heins
Cr David Walton (via conference call)

Council Officers (non-voting)

Mr Jeff Smith	Acting Chief Executive Officer - Director Corporate and Legal
Mr David Walsh	Chief Financial Officer
Ms Caroline Foley	Executive Manager Financial Planning & Systems
Ms Mary Ruppung	Head of Internal Audit
Ms Pamela Tasker	Administration Officer Internal Audit

Observers

Ms Renae Wilde	Team Leader, Financial Accounting
Mr Richard Ji	Team Leader, Financial Planning and Assets

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1.0 APOLOGIES

NOTES

1. An apology was received from Ms Sarah Richardson.
2. An apology was received from Mr Ray Brownlee PSM, Chief Executive Officer. Mr Jeff Smith, Director Corporate and Legal, attended on behalf of Mr Brownlee.
3. An apology was received from Ms Karen Taylor, Director Financial Audit, Audit Office of NSW.
4. An apology was received from Ms Sonya Gallery, Executive Manager Governance and Risk.
5. Cr David Walton attended the meeting via conference call.

2.0 DISCLOSURES OF INTEREST

Nil.

3.0 SPECIAL AGENDA ITEMS

3.1 2018-19 DRAFT FINANCIAL STATEMENTS

PROCEEDINGS IN BRIEF

Mr David Walsh, Chief Financial Officer and Ms Caroline Foley, Executive Manager Financial Planning and Systems, addressed the meeting on this item.

PURPOSE

To provide the Audit, Risk and Improvement Committee with an overview of the process undertaken and significant judgements and assumptions used in preparing the draft 2018/19 Northern Beaches Council Financial Statements prior to their inclusion on the agenda for a Council Meeting to be held on 24 September 2019.

PRECIS

The report provides a summary of the key accounting policies, critical accounting estimates and significant judgements used in applying these policies in the preparation of Council's draft 2018/19 Financial Statements and related disclosures.

To improve the quality of the financial statements and ensure disclosures and accounting policy notes are appropriate, the draft is referred to the Committee for their assessment and advice prior to the Council considering to resolve to refer the draft statements to audit at their meeting to be held on 24 September 2019.

DISCUSSION

1. The Committee commented that their focus on the review of the Financial Statements is to understand the underlying assumptions and judgements used by management in the preparation of the Financial Statements, the reasonableness of the numbers, the presentation and the wording of the related disclosures and notes.
2. The Committee was advised that Members sent questions to Finance as part of their review ahead of the ARIC meeting for timely consideration and response by Finance. Comments relating to consistency of terminology and wording used across disclosures and notes, aesthetic presentation of tables and charts for increased clarity, and redundant notes were noted by Finance and will be amended prior to presenting to Council for referral to external audit.

3. ARIC Report section 3, Variance Analysis:
 - The Committee were advised that the 5% variation threshold for analysis captured all material variances.
4. ARIC Report section 4.1 and Financial Statements Note 10, IPPE:
 - The Committee assessed the reasonableness of the average useful life and depreciation of infrastructure, property, plant and equipment.
 - The Committee received clarification on the average useful life calculation and advice that it excluded non-depreciable assets.
 - The Committee received assurance that the depreciation methodology framework has undergone a thorough review by Council's Strategic Asset Management Steering Committee and has been reviewed by the Audit Office in the previous and current year audits for reasonableness.
5. ARIC Report section 4.3, Mortgage Backed Securities:
 - The Committee was advised that Council has a collateralized debt obligation (CDO) which predates the ministerial directive to not enter into CDOs and management continue to monitor this obligation.
 - The Committee was advised that the Investment Policy is scheduled to be brought to the next ARIC meeting for its scheduled annual review.
6. ARIC Report section 4.5, Workers Compensation Self-Insurance Provision:
 - The Committee assessed the reasonableness of the presentation and disclosure of Workers Compensation Insurance (Note 4(a) in the Financial Statements) and recommended that additional disclosure be added to clarify Council's self-insurance arrangements and those covered by an external insurance provider. The corresponding note in the Financial Statements (Note 14, Provisions) should be updated accordingly for consistency.
7. ARIC Report section 4.6, Employee Leave Entitlements (ELE) Provisions and 4.7, Provision for Landfill Asset Remediation:
 - The Committee assessed the reasonableness of the discount rate for the present value calculation applied to the landfill asset remediation provision (4.26%) against the corresponding discount rate used to determine the present value for the ELE provisions (0.955% to 1.349%), as well as managements key assumptions used in arriving at this rate.
 - The Committee was advised that the nominal discount rate of 4.26% comprises the Reserve Bank of Australia's inflation forecast of approximately 2.5% combined with a real discount rate of 1.7%, consistent with the prior year, and this nominal (including inflation) discount rate used to determine the provision for landfill asset remediation was applied to forecast nominal (including inflation) cash flows, while the real discount rate used in relation to ELE provisions was, appropriately, applied to forecast real cash flows.
 - The Committee was advised that the ELE provision is funded from an internally restricted reserve with a 20% cash backing.
 - The Committee noted that it is a conservative approach to fully provide for ELE for employees with less than 5 years of service.
8. Financial Statements page 9 - Borrowing costs:
 - The Committee was advised that borrowings consist of both fixed and variable rate loans and that the decrease in the variable rate has contributed to the decrease in the average borrowing costs.

9. Financial Statements page 13:

- controlled **entities** – should be controlled **entity**
- **24/09/19** should be presented as **24 September 2019**.

10. Financial Statements page 23, Note 1 AASB 16 Leases:

- The Committee was advised that management are reviewing all of their operating leases to assess whether a Right of Use Asset exists. The greatest impact is anticipated to relate to the garbage trucks under the new Waste Collection contract.

11. Financial Statements page 27, Note 2(a) Functions or activities:

- The Committee noted the updated page with corrected figures and calculations tabled at the Meeting by Finance.

12. Financial Statements page 32, Note 3(d) First time recognition of Assets (non-cash):

- The Committee was advised that Council identified that there were three Crown land parcels under the Council's care and control that were not included in Council's asset register in the previous years. The assets were valued based on land values obtained from the NSW Valuer-General and recognised in the current year Financial Statements.

13. Financial Statements page 47, Note 7 Receivables:

- The Committee was advised that the increase in the Net GST Receivable compared to the prior year related to a GST refund received in July 2019.

14. Financial Statements page 56, Note 12 Intangible assets:

- The Committee noted Council's conservative approach in not capitalising any software outlays as an intangible asset.

15. Financial Statements page 74, Note 19 Contingencies:

- The Committee noted the appropriateness of the disclosure of the matter set out under (v) *Other*. The Committee further discussed and considered whether any additional matters would be relevant for inclusion in the note.

16. Financial Statements page 83, Note 23 Fair value measurement:

- The Committee recommended that unit rates psm **or** length be amended to psm **and** length.

17. Financial Statements page 85, Note 24 Related party disclosures:

- The Committee was advised that the related party disclosure note is a combination of individual declarations and Council driven processes to identify required related party disclosures and that management are comfortable with the completeness of disclosures presented.

18. Financial Statements page 87, Note 25 Events occurring after reporting date:

- The Committee was advised that there were no material events occurring after reporting date that have come to the attention of management at the time of the ARIC meeting held 3 September 2019.

19. Financial Statements page 88, Note 26 Statement of developer contributions:

- The Committee was advised that certain sections of the table in Note 26 will be consolidated in the next financial year.

20. Financial Statements page 94, Note 28 Statement of performance measures:

- The Committee was advised that performance indicators are expected to continue to be met in the new financial year.

21. Special Schedules page 112, Report on infrastructure assets:

- The Committee assessed the reasonableness and presentation of the unaudited report on infrastructure assets.
- The Committee noted that the report looks at the long term sustainability of Council and is reflective of the Asset Management Plans and Strategy.
- The Committee recommended that management expand footnote 1 to reflect that 'a satisfactory standard' equates to a 'Good' condition for internal reporting purposes.

22. Special Schedules page 113, Infrastructure asset performance indicators:

- The Committee was advised that the depreciation, amortisation and impairment amount relates to infrastructure assets only, and excludes other classes of assets.
- The Committee was advised that the internal benchmark used for '4. Cost to bring asset to agreed service level' is <2%, however there is no externally imposed benchmark for this indicator. The Committee was further advised that the increase in the current year indicator for this item is due to the enhanced accuracy and not the deterioration of assets, as there is now increased clarity about the current condition of assets.

23. The Committee was advised that management are awaiting resolution on what needs to be done with regards to RFS assets from the OLG.

24. The Chair extended his appreciation on behalf of the Committee to the Finance Team involved in the preparation of the Financial Statements and accompanying ARIC report.

COMMITTEE RESOLUTION

That the Audit, Risk and Improvement Committee support the draft 2018/19 Financial Statements, as amended following feedback, as suitable for consideration by Council for referral to external audit.

(Cr Grattan / Cr Heins)

4.0 NEXT MEETING

The next meeting of the Audit, Risk and Improvement Committee is scheduled to take place in the Flannel Flower Room, Level 2, Civic Centre, Dee Why, at 3.00pm on Tuesday 10 December 2019.

Meeting closed at 10.47am.