

CITY OF PALMERSTON

**Notice of Risk Management and Audit Committee Meeting
To be held in Council Chambers
Civic Plaza, Palmerston
on Wednesday 24 October 2018 at 5.30pm.**

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2	OPENING OF MEETING	
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4	DECLARATION OF INTEREST	
5	CONFIRMATION OF MINUTES	
5.1	Confirmation of Minutes	
	THAT the Minutes of the Risk Management and Audit Committee meeting held on Wednesday 4 July 2018, pages 81 to 84 be confirmed.	
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AGENDA ITEM:	6.1
REPORT TITLE:	Action Report
REPORT NUMBER:	9RMA/001
MEETING DATE:	24 October 2018
Author:	Finance Manager, Shane Nankivell
Approver:	Director Corporate Services, Chris Kelly

PURPOSE

This report seeks to inform the committee on the progress of previous actions.

Municipal Plan:

4. Governance & Organisation

4.1 Responsibility

4.1 We are committed to corporate and social responsibility, the sustainability of Council assets and services, and the effective planning and reporting of Council performance to the community.

KEY ISSUES

- Internal Audit firm KPMG has recently developed the draft strategic risk register.
- The position of Manager Information and Digital Innovation has recently been filled, and an update on IT related issues will be provided at the next Committee meeting.

RECOMMENDATION

THAT the Risk Management and Audit Committee recommend to the Council:

1. THAT Report Number 9RMA/001 entitled Action Report be received and noted.
2. THAT the items completed and recommended for removal be removed from the Action Report being Decision Numbers:
 - RMA/0132
 - RMA/0140

BACKGROUND

At the Risk Management & Audit Committee Meeting on 4 July 2018 the committee resolved:



RISK MANAGEMENT AND AUDIT COMMITTEE

REPORT

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8.1 Action Report

RMA/071

Moved: Alderman Garden
Seconded: Mayor Pascoe-Bell

THAT the Risk Management and Audit Committee recommend to the Council:

1. THAT Report Number RMA/071 entitled Action Report be received and noted.
2. THAT the items completed and recommended for removal be removed from the Action Report being Decision Numbers:

- RMA/0121
- RMA/0122
- RMA/0125
- RMA/0129
- RMA/0134
- RMA/0135
- RMA/0136
- RMA/0137
- RMA/0138
- RMA/0139

CARRIED RMA9/0004 - 04/07/2018

DISCUSSION

Action Item No.	Date	Decision	Status
RMA/0097	08/02/2017	THAT those Management responses be provided back to the Committee in a format identifying where possible evidence of implementation and linkage back to the appropriate risk register.	The internal auditor KPMG has been working with ELT and a strategic risk register is in its final stages of development and is expected to be finalised in the near future. The management responses referred to from the 2015/16 financial year will be related back to the register and presented to the committee along with the management responses from the 2017-18 audit at the next committee meeting.

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RMA/0104	26/04/2017	THAT the Committee requests more clarity around risk descriptions and their treatments so that proposed internal audit activity can be better identified.	The internal auditor KPMG has been working with ELT and a strategic risk register is in its final stages of development and is expected to be finalised in the near future. A draft internal audit program is in development that focuses on high risk areas and also undertakes a high-level review on select finance functions. This program will be presented at the next Committee meeting.
RMA/0106	26/04/2017	THAT the Committee requests that an internal audit plan referenced to treatments in the risk register and the budget allocation for internal audit be presented to the Committee at the next meeting.	The internal auditor KPMG has been working with ELT and a strategic risk register is in its final stages of development and is expected to be finalised in the near future. A draft internal audit program is in development that focuses on high risk areas and also undertakes a high-level review on select finance functions. This program will be presented at the next Committee meeting.
RMA/0126	08/02/2018	Review of and update of IT permissions to modules within the financial systems	The Manager of Information and Digital Innovation commenced with Council on October 1. One of the key duties of this position will be to address the recommendations made by Council's

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			external and internal auditors. An update on the progress of this action will be presented at the next committee meeting.
RMA/0127	08/02/2018	Council to draft an internal procedure on the reimbursement of expenses to employees	A draft procedure has been developed and will be implemented once the procedure is endorsed by the Executive Leadership Team.
RMA/0130	08/02/2018	Council reviews and executive management endorse the IT policies.	The Manager of Information and Digital Innovation commenced with Council on October 1. One of the key duties of this position will be to address the recommendations made by Council's external and internal auditors. An update on the progress of this action will be presented at the next committee meeting.
RMA/0131	08/02/2018	That Council design and implement an IT disaster recovery plan	The Manager of Information and Digital Innovation commenced with Council on October 1. One of the key duties of this position will be to address the recommendations made by Council's external and internal auditors. An update on the progress of this action will be presented at the next committee meeting.
RMA/0132	08/02/2018	Council to investigate the implementation of an ageing report for infringements	This report has been developed and is now in use. This item

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			is recommended to be removed.
RMA/0140	08/02/2018	THAT the Committee recommends to Council that a revised work plan for the Risk Management and Audit Committee be presented to the next Council meeting reflecting the change in meeting schedule.	This item was adopted by Council Decision Number 9/0206 on 07/08/2018. It is recommended to be removed.
RMA9/0002	04/07/2018	THAT the Risk Management and Audit Committee be provided with a detailed report in the October 2018 Meeting outlining Council's response to each of the recommendations contained in the Independent Investigator's Report including a reference to the Council's risk register.	Due to the time required to review the financial statements this item will be reviewed and presented at the next committee meeting.
RMA9/0003	04/07/2018	THAT the Risk Management and Audit Committee recommends that Merit Partners be asked to risk rate items contained within section 6.3 of Attachment A to Report Number RMA/074 entitled External Audit Plan for Review of Financial Year ended 30 June 2018. THAT a further report be provided to the Risk Management and Audit Committee which includes management responses for the October 2018 meeting.	Included on this Agenda.

CONSULTATION PROCESS

Council officers who were consulted on this report:

- Manager Information and Digital Innovation

POLICY IMPLICATIONS

There are no policy implications from this report.

BUDGET AND RESOURCE IMPLICATIONS

There are no budget and resource implications from this report.

RISK, LEGAL AND LEGISLATIVE IMPLICATIONS

There are no risk, legal and legislative implications from this report.

ENVIRONMENT SUSTAINABILITY IMPLICATIONS

There are no environment sustainability implications from this report.



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COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the author and approving officer declare that we do not have a conflict of interest in relation to this matter.

ATTACHMENTS

There are no attachments for this report.

AGENDA ITEM:	7.1
REPORT TITLE:	Draft Annual Financial Statements 2017/2018
REPORT NUMBER:	9RMA/002
MEETING DATE:	24 October 2018
Author:	Finance Manager, Shane Nankivell
Approver:	Director Corporate Services, Chris Kelly

PURPOSE

This report seeks the committee to review the Annual Financial Statements for inclusion in the 2018/2019 Annual Report.

Municipal Plan:

4. Governance & Organisation

4.1 Responsibility

4.1 We are committed to corporate and social responsibility, the sustainability of Council assets and services, and the effective planning and reporting of Council performance to the community.

KEY ISSUES

- At the time of completing this report no material issues were raised by the external auditors in relation to the financial statements for 2017/2018.
- The financial review is information in addition to what is required under legislation and provides additional transparency to the annual report.

RECOMMENDATION

THAT the Risk Management and Audit Committee recommend to the Council:

1. THAT Report Number 9RMA/002 entitled Draft Annual Financial Statements 2017/2018 be received and noted.
2. THAT the Committee deems the draft financial statements for the year ended 30 June 2018 at **Attachment A** and the accompanying financial review at **Attachment B** to Report Number RRMA/002 entitled Draft Annual Financial Statements 2017/2018 suitable for consideration by the Chief Executive Officer for certification and inclusion in the 2017/2018 Annual Report.

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BACKGROUND

At the Risk Management & Audit Committee Meeting on 23 October 2017 the committee resolved:

4.1 Draft Annual Financial Statements 2016-2017 RMA/061

Moved: Mark Blackburn
Seconded: Iain Summers

1. THAT the Committee receives Report Number RMA/061.
2. THAT the Committee deems the draft financial statements for the year ended 30 June 2017 and the accompanying financial review suitable for consideration by the Chief Executive Officer for certification and inclusion in the annual report.

CARRIED RMA/0119 - 23/10/2017

DISCUSSION

The external auditors Merit Partners have undertaken their end of year audit on Council's financial statements. During their audit all information and substantiation that was requested was provided.

At the time of finalising this report there were no significant issues raised by the external auditors in relation to the financial statements as presented in **Attachment A**. The draft final result for Council was a comprehensive income surplus of \$163,390 million which includes gifted assets from the Northern Territory Government and developers and revaluations of Council's assets. The cash balance inclusive of investments decreased between 2016/17 and 2017/18 by \$1.99 million. This is an improvement from the original budget of an expected decrease in reserves of \$2.421 million and the actual result also included the cost of the clean up from Cyclone Marcus. Council has budgeted for a increase in its reserves in the 2018/19 annual budget of \$571,000.

Attachment B is the Draft Financial Review for the 2017/2018 financial year. Although not required by legislation, this information provides additional transparency and is designed to provide a summary on the financial outcomes of the financial year in comparison to the original budget included in the Municipal Plan 2017-22. Once reviewed, the content in **Attachment B** will be formatted and converted into the style guidelines used in the Annual Report.

CONSULTATION PROCESS

There is no consultation required for the preparation of this report

POLICY IMPLICATIONS

There are no policy implications from this report.

BUDGET AND RESOURCE IMPLICATIONS

There are no budget and resource implications from this report.

RISK, LEGAL AND LEGISLATIVE IMPLICATIONS

In accordance with the *Local Government Act* and the *Local Government (Accounting) Regulations*, Council must have an auditor appointed. The auditor is to undertake an audit on Council's financial statements to provide assurance that they are free from material misstatement and are prepared in accordance with the Australian Accounting Standards and any relevant legislation. The financial statements contribute



RISK MANAGEMENT AND AUDIT COMMITTEE

REPORT

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to the annual report which must be lodged with the Department of Housing and Community Services on or before 15 November each year.

ENVIRONMENT SUSTAINABILITY IMPLICATIONS

There are no environment sustainability implications from this report.

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the author and approving officer declare that we do not have a conflict of interest in relation to this matter.

ATTACHMENTS

Attachment A: Draft Annual Financial Statements 2017/2018

Attachment B: Draft Financial Review for 2017/2018 for the Annual Report

City of Palmerston

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

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General Purpose Financial Statements for the year ended 30 June 2018

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General Purpose Financial Statements for the year ended 30 June 2018

Chief Executive Officer's Statement

I, Luccio Cercarelli, the Chief Executive Officer of City of Palmerston, hereby certify that the Annual Financial Statements:

- have been drawn up in accordance with the applicable Australian Accounting Standards, the *Local Government Act* and the *Local Government (Accounting) Regulations* so as to present fairly the financial position of the Council and the results for the year ended 30 June 2018; and
- are in accordance with the accounting and other records of Council.

Luccio Cercarelli
CHIEF EXECUTIVE OFFICER

Date: dd Month 2018

Statement of Comprehensive Income

for the year ended 30 June 2018

\$ '000	Notes	2018	2017
Income			
Rates Revenues	2a	27,658	26,320
Statutory Charges	2b	177	154
User Charges	2c	1,451	1,260
Grants, Subsidies and Contributions	2g	3,120	4,297
Investment Income	2d	1,152	1,121
Reimbursements	2e	9	83
Other Income	2f	310	755
Total Income		33,877	33,990
Expenses			
Employee Costs	3a	7,797	7,933
Materials, Contracts & Other Expenses	3b	24,168	18,272
Depreciation, Amortisation & Impairment	3c	9,401	9,541
Total Expenses		41,366	35,746
Operating Surplus / (Deficit)		(7,489)	(1,756)
Asset Disposal & Fair Value Adjustments	4	(1,278)	(404)
Amounts Received Specifically for New or Upgraded Assets	2g	2,390	4,785
Physical Resources Received Free of Charge	2i	46,933	23,492
Net Surplus / (Deficit) ¹		40,556	26,117
Other Comprehensive Income			
<i>Amounts which will not be reclassified subsequently to operating result</i>			
Changes in Revaluation Surplus - I,PP&E	9a	122,834	-
Total Other Comprehensive Income		122,834	-
Total Comprehensive Income		163,390	26,117

¹ Transferred to Statement of Changes in Equity

City of Palmerston

Statement of Financial Position

as at 30 June 2018

\$ '000	Notes	2018	2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	5a	16,142	7,639
Trade & Other Receivables	5b	1,498	1,595
Other Financial Assets	5c	4,500	15,000
Subtotal		22,140	24,234
Non-Current Assets Held for Sale	20	-	1,613
Total Current Assets		22,140	25,847
Non-Current Assets			
Infrastructure, Property, Plant & Equipment	7a	545,712	379,366
Investment Property	7a	6,773	6,936
Other Non-Current Assets	6c	1,717	3,864
Total Non-Current Assets		554,202	390,166
TOTAL ASSETS		576,342	416,013
LIABILITIES			
Current Liabilities			
Trade & Other Payables	8a	3,363	3,535
Provisions	8c	3,036	3,941
Total Current Liabilities		6,399	7,476
Non-Current Liabilities			
Provisions	8c	1,744	3,728
Total Non-Current Liabilities		1,744	3,728
TOTAL LIABILITIES		8,143	11,204
Net Assets		568,199	404,809
EQUITY			
Accumulated Surplus		206,136	164,563
Asset Revaluation Reserves	9a	346,322	223,488
Other Reserves	9b	15,741	16,758
Total Council Equity		568,199	404,809

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Statement of Changes in Equity
for the year ended 30 June 2018

\$ '000	Notes	Accumulated Surplus	Asset Revaluation Reserve	Other Reserves	Total Equity
2018					
Balance at the end of previous reporting period		164,563	223,488	16,758	404,809
a. Net Surplus / (Deficit) for Year		40,556	-	-	40,556
b. Other Comprehensive Income					
- Gain (Loss) on Revaluation of I,PP&E	7a	-	122,834	-	122,834
Other Comprehensive Income		-	122,834	-	122,834
Total Comprehensive Income		40,556	122,834	-	163,390
c. Transfers between Reserves		1,017	-	(1,017)	-
Balance at the end of period		206,136	346,322	15,741	568,199
2017					
Balance at the end of previous reporting period		140,882	223,488	14,322	378,692
a. Net Surplus / (Deficit) for Year		26,117	-	-	26,117
Total Comprehensive Income		26,117	-	-	26,117
b. Transfers between Reserves		(2,436)	-	2,436	-
Balance at the end of period		164,563	223,488	16,758	404,809

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Statement of Cash Flows

for the year ended 30 June 2018

\$ '000	Notes	2018	2017
Cash Flows from Operating Activities			
<u>Receipts</u>			
Rates Receipts		27,444	26,203
Statutory Charges		177	-
User Charges		1,596	1,502
Grants, Subsidies and Contributions (operating purpose)		3,256	4,512
Investment Receipts		1,152	1,171
Reimbursements		9	-
Other Receipts		2,931	2,464
<u>Payments</u>			
Payments to Employees		(7,733)	(7,648)
Payments for Materials, Contracts & Other Expenses		(29,895)	(22,958)
Net Cash provided by (or used in) Operating Activities	11b	(1,063)	5,246
Cash Flows from Investing Activities			
<u>Receipts</u>			
Amounts Received Specifically for New/Upgraded Assets		2,390	4,785
Sale of Replaced Assets		14	-
Sale of Surplus Assets		50	1,887
Net Disposal of Investment Securities		10,500	-
<u>Payments</u>			
Expenditure on Renewal/Replacement of Assets		(607)	(6,863)
Expenditure on New/Upgraded Assets		(2,792)	-
Net Purchase of Investment Securities		-	(2,500)
Net Cash provided by (or used in) Investing Activities		9,555	(2,691)
Cash Flows from Financing Activities			
<u>Receipts</u>			
Proceeds from Bonds & Deposits		11	-
Net Cash provided by (or used in) Financing Activities		11	-
Net Increase (Decrease) in Cash Held		8,503	2,555
plus: Cash & Cash Equivalents at beginning of period	11	7,639	5,084
Cash & Cash Equivalents at end of period	11	16,142	7,639
Additional Information:			
plus: Investments on hand - end of year	5a	4,500	15,000
Total Cash, Cash Equivalents & Investments		20,642	22,639

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Notes to and forming part of the Financial Statements for the year ended 30 June 2018

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n/a - not applicable

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Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1. Summary of Significant Accounting Policies

The principal accounting policies adopted by Council in the preparation of these consolidated financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

1 Basis of Preparation

1.1 Compliance with Australian Accounting Standards

This general-purpose financial report has been prepared in accordance with Australian Accounting Standards as they apply to not-for-profit entities, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations, the requirements of the *Local Government Act*, the *Local Government (Accounting) Regulations* and other relevant Northern Territory legislation.

1.2 Historical Cost Convention

Except as stated below, these financial statements have been prepared in accordance with the historical cost convention.

1.3 Critical Accounting Estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and requires management to exercise its judgement in applying Council's accounting policies.

Particular areas involving a high degree of judgement or complexity include the estimation of future payments and timing in relation to tip restoration. Further information in relation to the estimation of these liabilities are given in the relevant sections of these Notes.

1.4 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

2 The Local Government Reporting Entity

City of Palmerston ("the Council") is incorporated under the NT Local Government Act and has its principal place of business at 1 Chung Wah Terrace,

Palmerston. These financial statements include the Council's direct operations and all entities through which Council controls resources to carry on its functions. In the process of reporting on the Council as a single unit, all transactions and balances between activity areas and controlled entities have been eliminated.

3 Income Recognition

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

Where grants, contributions and donations recognised as incomes during the reporting period were obtained on the condition that they be expended in a particular manner or used over a particular period, and those conditions were undischarged as at the reporting date, the amounts subject to those undischarged conditions are disclosed in these notes. Also disclosed is the amount of grants, contributions and receivables recognised as incomes in a previous reporting period which were obtained in respect of the Council's operations for the current reporting period.

In recent years the payment of untied financial assistance grants has varied from the annual allocation as shown in the table below:

	Cash Payment Received	Annual Allocation	Difference
2015/16	\$1,510,585	\$1,510,585	\$0
2016/17	\$2,279,338	\$1,503,140	+ \$776,198
2017/18	\$1,669,609	\$1,615,592	+\$54,017

Because these grants are untied, the Australian Accounting Standards require that payments be recognised upon receipt. Accordingly, the operating results of these periods have been distorted compared to those that would have been reported had the grants been paid in the year to which they were allocated.

The Operating Surplus Ratio disclosed in Note 15 has also been calculated after adjusting for the distortions resulting from the differences between the

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1. Summary of Significant Accounting Policies (continued)

actual grants received and the grants entitlements allocated.

4 Cash, Cash Equivalents and other Financial Instruments

Cash Assets include all amounts readily convertible to cash on hand at Council's option with an insignificant risk of changes in value with a maturity of three months or less from the date of acquisition.

Receivables for rates and annual charges are secured over the subject land, and bear interest at rates determined in accordance with the Local Government Act 1999. Other receivables are generally unsecured and do not bear interest.

All receivables are reviewed as at the reporting date and adequate allowance made for amounts the receipt of which is considered doubtful.

All financial instruments are recognised at fair value at the date of recognition. A detailed statement of the accounting policies applied to financial instruments forms part of Note 13.

5 Inventories

Council does not hold any inventories

6 Infrastructure, Property, Plant & Equipment

6.1 Initial Recognition

All assets are initially recognised at cost. For assets acquired at no cost or for nominal consideration, cost is determined as fair value at the date of acquisition.

All non-current assets purchased or constructed are capitalised as the expenditure is incurred and depreciated as soon as the asset is held "ready for use". Cost is determined as the fair value of the assets given as consideration plus costs incidental to the acquisition, including architects' fees and engineering design fees and all other costs incurred. The cost of non-current assets constructed by the Council includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of variable and fixed overhead.

6.2 Materiality

Assets with an economic life in excess of one year are only capitalised where the cost of acquisition exceeds materiality thresholds established by Council for each type of asset. In determining (and in annually reviewing) such thresholds, regard is had to the nature of the asset and its estimated service life. Examples of capitalisation thresholds applied during the year are given below. No capitalisation threshold is applied to the acquisition of land or interests in land.

Furniture & Equipment	\$5,000
Plant & Equipment	\$5,000
Buildings & Other Structures	\$5,000
Roads	\$10,000
Footpaths and Bicycle ways	\$5,000
Kerb and Gutter	\$5,000
Motor Vehicles	\$5,000
Irrigation	\$5,000
Intangible Assets	\$10,000
Stormwater Drainage	\$10,000
Land Improvement	\$10,000

6.3 Subsequent Recognition

All material asset classes are revalued on a regular basis such that the carrying values are not materially different from fair value. Significant uncertainties exist in the estimation of fair value of a number of asset classes including land, buildings and associated structures and infrastructure. Further detail of these uncertainties, and of existing valuations, methods and valuers are provided at Note 7.

6.4 Depreciation of Non-Current Assets

Other than land, all infrastructure, property, plant and equipment assets recognised are systematically depreciated over their useful lives on a straight-line basis which, in the opinion of Council, best reflects the consumption of the service potential embodied in those assets.

Depreciation methods, useful lives and residual values of classes of assets are reviewed annually.

Major depreciation periods for each class of asset are listed below. Depreciation periods for infrastructure assets have been estimated based on information available to Council from an Engineering firm who undertook a review of the infrastructure assets in 2018. However, appropriate records

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1. Summary of Significant Accounting Policies (continued)

covering the entire life cycle of these assets are not available, and care should be used in interpreting financial information based on these estimates.

Plant, Furniture & Equipment

Furniture and Equipment	2 to 10 years
Motor Vehicles	3 to 8 years
Plant & Equipment	5 to 15 years

Building & Other Structures

Buildings	25 to 80 years
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Infrastructure

Roads – Earthworks	100 years
Roads – Pavement	60 to 80 years
Roads – Seal	20 to 60 years
Road Furniture	70 years
Footpaths and Bicycle ways	15 to 60 years
Kerb and Gutter	60 years
Driveways	15 to 60 years
Irrigation	25 to 30 years
Stormwater Drainage	85 to 100 years
Street Lights	15 to 100 years

Other Assets

Land Improvement	30 years
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6.5 Impairment

Assets whose future economic benefits are not dependent on the ability to generate cash flows, and where the future economic benefits would be replaced if Council were deprived thereof, are not subject to impairment testing.

Other assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (which is the higher of the present value of future cash inflows or value in use).

Where an asset that has been revalued is subsequently impaired, the impairment is first offset against such amount as stands to the credit of that class of assets in Asset Revaluation Reserve, any excess being recognised as an expense.

6.6 Borrowing Costs

Borrowing costs in relation to qualifying assets (net of offsetting investment revenue) have been

capitalised in accordance with AASB 123 "Borrowing Costs". The amounts of borrowing costs recognised as an expense or as part of the carrying amount of qualifying assets are disclosed in Note 3, and the amount (if any) of interest revenue offset against borrowing costs in Note 2.

7 Investment property

Investment property comprises land &/or buildings that are principally held for long-term rental yields, capital gains or both that is not occupied by Council.

Investment property is carried at fair value, representing an open-market value determined annually by external valuers.

Annual changes in the fair value of Investment Properties are recorded in the Income Statement as part of "Investment Income".

Full revaluations are carried out every year.

The last full revaluation for Council's Investment Properties was dated 30/06/18.

8 Payables

8.1 Goods & Services

Creditors are amounts due to external parties for the supply of goods and services and are recognised as liabilities when the goods and services are received. Creditors are normally paid 30 days after the month of invoice. No interest is payable on these amounts.

8.2 Payments Received in Advance & Deposits

Amounts other than grants received from external parties in advance of service delivery, and security deposits held against possible damage to Council assets, are recognised as liabilities until the service is delivered or damage reinstated, or the amount is refunded as the case may be.

9 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1. Summary of Significant Accounting Policies (continued)

statement over the period of the borrowings using the effective interest method.

Borrowings are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period to which it relates, and is recorded as part of "Payables".

10 Employee Benefits

10.1 Salaries, Wages & Compensated Absences

Liabilities for employees' entitlements to salaries, wages and compensated absences expected to be paid or settled within 12 months of reporting date are accrued at nominal amounts (including payroll based oncosts) measured in accordance with AASB 119.

Liabilities for employee benefits not expected to be paid or settled within 12 months are measured as the present value of the estimated future cash outflows (including payroll based oncosts) to be made in respect of services provided by employees up to the reporting date. Present values are calculated using government guaranteed securities rates with similar maturity terms.

No accrual is made for sick leave as Council experience indicates that, on average, sick leave taken in each reporting period is less than the entitlement accruing in that period, and this experience is expected to recur in future reporting periods. Council does not make payment for untaken sick leave.

10.2 Superannuation

The Council makes employer superannuation contributions in respect of its employees to the Statewide Superannuation Scheme. The Scheme has two types of membership, each of which is funded differently. No changes in accounting policy have occurred during either the current or previous reporting periods. Details of the accounting policies applied and Council's involvement with the schemes are reported in Note 18.

11 Provisions for Reinstatement, Restoration and Rehabilitation

Close down and restoration costs include the dismantling and demolition of infrastructure and the

removal of residual materials and remediation and rehabilitation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs and are carried at the net present value of estimated future costs.

Although estimated future costs are based on a closure plan, such plans are based on current environmental requirements which may change.

12 Leases

Lease arrangements have been accounted for in accordance with Australian Accounting Standard AASB 117.

In respect of finance leases, where Council substantially carries all of the risks incident to ownership, the leased items are initially recognised as assets and liabilities equal in amount to the present value of the minimum lease payments. The assets are disclosed within the appropriate asset class and are amortised to expense over the period during which the Council is expected to benefit from the use of the leased assets. Lease payments are allocated between interest expense and reduction of the lease liability, according to the interest rate implicit in the lease.

In respect of operating leases, where the lessor substantially retains all of the risks and benefits incident to ownership of the leased items, lease payments are charged to expense over the lease term.

13 Construction Contracts

Construction works undertaken by Council for third parties are generally on an agency basis where the third party reimburses Council for actual costs incurred, and usually do not extend beyond the reporting period. As there is no profit component, such works are treated as 100% completed. Reimbursements not received are recognised as receivables and reimbursements received in advance are recognised as "payments received in advance".

For works undertaken on a fixed price contract basis, revenues and expenses are recognised on a percentage of completion basis. Costs incurred in advance of a future claimed entitlement are classified

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1. Summary of Significant Accounting Policies (continued)

as work in progress in inventory. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

14 Equity Accounted Council Businesses

Council participates in cooperative arrangements with other Councils for the provision of services and facilities. Council's interests in cooperative arrangements, which are only recognised if material, are accounted for in accordance with AASB 128 and set out in detail in Note 19.

15 GST Implications

In accordance with UIG Abstract 1031 "Accounting for the Goods & Services Tax"

- Receivables and Creditors include GST receivable and payable.
- Except in relation to input taxed activities, revenues and operating expenditures exclude GST receivable and payable.
- Non-current assets and capital expenditures include GST net of any recoupment.
- Amounts included in the Statement of Cash Flows are disclosed on a gross basis.

16 New accounting standards and UIG interpretations

In the current year, Council adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised Standards and Interpretations has not resulted in any material changes to Council's accounting policies.

City of Palmerston has not applied any Australian Accounting Standards and Interpretations that have been issued but are not yet effective.

Some Australian Accounting Standards and Interpretations have been issued but are not yet effective. Those standards have not been applied in these financial statements. Council will implement them when they are effective.

The standards are not expected to have a material impact upon Council's future financial statements are:

Effective for annual reporting periods beginning on or after 1 January 2017

- AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*
- AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*
- AASB 2016-7 *Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not-for-Profit Entities*

Effective for annual reporting periods beginning on or after 1 January 2018

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*
- AASB 2014-1 *Amendments to Australian Accounting Standards (Part E)*
- AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*
- AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*
- AASB 2016-6 *Amendments to Australian Accounting Standards - Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*
- AASB 2017-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 4*

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 1. Summary of Significant Accounting Policies (continued)

Effective for annual reporting periods beginning on or after 1 January 2019

- AASB 16 *Leases*
- AASB 16 *Leases (Appendix D)*
- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 1058 *Income of Not-for-Profit Entities (Appendix D)*
- AASB 2016-8 *Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*
- AASB 2017-4 *Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments*
- AASB 1059 *Service Concession Arrangements: Grantors*
- AASB 1059 *Service Concession Arrangements: Grantors (Appendix D)*

Effective for annual reporting periods beginning on or after 1 January 2021

- AASB 17 *Insurance Contracts*
- AASB 17 *Insurance Contracts (Appendix D)*

17 Comparative Figures

To ensure comparability with the current reporting period's figures, some comparative period line items and amounts may have been reclassified or individually reported for the first time within these financial statements and/or the notes.

18 Disclaimer

Nothing contained within these statements may be taken to be an admission of any liability to any person under any circumstance.

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 2. Income

\$ '000	Notes	2018	2017
(a). Rates Revenues			
General Rates			
Residential		17,659	16,931
Commercial		1,869	1,901
Industrial		793	651
Rates Received in Advance		158	128
Other		73	68
Total General Rates		20,552	19,679
Other Rates (Including Service Charges)			
Waste Management Service		7,106	6,641
Total Other Rates		7,106	6,641
Total Rates Revenues		27,658	26,320
(b). Statutory Charges			
Animal Registration Fees & Fines		22	19
Parking Fines / Expiation Fees		87	69
Other Licences, Fees & Fines		68	66
Total Statutory Charges		177	154
(c). User Charges			
Parking Fees		311	19
Sundry		17	53
Developer Charges		97	209
Animal Control		58	77
Rent and Hire of Council Equipment		474	352
Library		57	62
Rate Searches and Dog Registrations		289	325
Licences and Permits		148	163
Total User Charges		1,451	1,260

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 2. Income (continued)

\$ '000	Notes	2018	2017
(d). Investment Income			
Interest on Investments			
- Banks & Other		545	541
- Interest on Overdue Rates and Charges		161	134
Investment Property Rental Income		446	446
Total Investment Income		1,152	1,121
(e). Reimbursements			
Private Works		1	38
Other		8	45
Total Reimbursements		9	83
(f). Other Income			
Insurance & Other Recoupments - Infrastructure, IPP&E		56	54
Sundry		18	79
Landfill Rehabilitation provision reduction		236	622
Total Other Income		310	755
(g). Grants, Subsidies, Contributions			
Amounts Received Specifically for New or Upgraded Assets		2,390	4,785
Other Grants, Subsidies and Contributions		3,120	4,297
Total Grants, Subsidies, Contributions		5,510	9,082
The functions to which these grants relate are shown in Note 12.			
(i) Sources of grants			
Commonwealth Government		549	627
State Government		4,388	7,789
Other		573	666
Total		5,510	9,082

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 2. Income (continued)

\$ '000	Notes	2018	2017
(h). Conditions over Grants & Contributions			
Grants and contributions which were obtained on the condition that they be expended for specified purposes or in a future period, but which are not yet expended in accordance with those conditions, are as follows:			
Unexpended at the close of the previous reporting period		-	250
<i>Less:</i>			
<i>Expended during the current period from revenues recognised in previous reporting periods</i>			
Government Grants		-	(250)
Subtotal		-	(250)
<i>Plus:</i>			
<i>Amounts recognised as revenues in this reporting period but not yet expended in accordance with the conditions</i>			
Government Grants		1,776	-
Subtotal		1,776	-
Unexpended at the close of this reporting period		1,776	-
Net increase (decrease) in assets subject to conditions in the current reporting period		1,776	(250)
(i). Physical Resources Received Free of Charge			
Land		795	4,735
Land Improvements		-	1,908
Stormwater Drainage		-	8,328
Roads and Pavement		-	5,871
Footpaths and Cycleways		-	1,529
Kerb and Gutter		-	865
Water and Irrigation		-	256
Other - Gifted Assets		46,138	-
Total Physical Resources Received Free of Charge		46,933	23,492

City of Palmerston

Notes to and forming part of the Financial Statements

for the year ended 30 June 2018

Note 2. Income (continued)

\$ '000	Notes	Opening Balance 1 July 2017	Movements		Closing Balance 30 June 2018
			Received/ Receivable	Expended	
(j). Reconciliation of Government Grants					
Grants (with discretion on use)					
General Purpose (Untied)					
Grants Commission Grant - General Purpose		-	742	742	-
Grants Commission Grant - Roads Funding		-	928	928	-
Subtotal		-	1,670	1,670	-
Specific Purpose (Recurrent)					
Roads to Recovery		-	538	538	-
Streetlighting		-	238	238	-
Libraries		-	582	582	-
Other		-	9	9	-
Subtotal		-	1,367	1,367	-
Total Other Grants		-	3,037	3,037	-
Grants Specifically for New/Upgraded Assets					
Specific Purpose (Recurrent)					
Territory Road Asset Grants - Johnston/Zuccoli		-	1,000	-	1,000
Culvert & Drainage Wallaby Holtze		-	90	90	-
Territory Grant - City of Palmerston Revitalisation Grant		-	490	-	490
Outdoor Basketball Court		-	11	-	11
ISLRP - Wallaby Holtze Flood Mitigation		-	260	-	260
SPG - CCTV Installation		-	47	32	15
Total Grants Specifically for New/Upgraded Assets		-	1,898	122	1,776
Recognised as revenue in advance of expenditure		-			1,776
Total Other Grants		-			1,776

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 3. Expenses

\$ '000	Notes	2018	2017
(a). Employee Costs			
Salaries and Wages		5,822	5,822
Employee Leave Expense		879	991
Superannuation - Defined Contribution Plan Contributions	18	646	652
Superannuation - Defined Benefit Plan Contributions	18	-	27
Workers' Compensation Insurance		107	89
Other		343	352
Total Operating Employee Costs		7,797	7,933
Total Number of Employees (full time equivalent at end of reporting period)		80	75
(b). Materials, Contracts and Other Expenses			
(i) Prescribed Expenses			
Auditor's Remuneration			
- Auditing the Financial Reports		28	31
- Other Services		12	-
- Other Auditors		-	3
Bad and Doubtful Debts		126	-
Elected Members' Expenses		256	265
- Minimum Lease Payments		179	182
Subtotal - Prescribed Expenses		601	481
(ii) Other Materials, Contracts and Expenses			
Contractors		14,626	12,442
Energy		1,155	1,072
Legal Expenses		607	135
Professional Services		1,324	637
Sundry		5,855	3,505
Subtotal - Other Material, Contracts & Expenses		23,567	17,791
Total Materials, Contracts and Other Expenses		24,168	18,272

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 3. Expenses (continued)

\$ '000	Notes	2018	2017
(c). Depreciation, Amortisation and Impairment			
(i) Depreciation and Amortisation			
Land Improvements		677	1,363
Buildings & Other Structures		891	589
Infrastructure			
- Stormwater Drainage		2,981	1,731
- Roads and Pavement		2,619	3,794
- Kerbs and Guttering		244	505
- Footpaths and Cycleways		814	638
- Water and Irrigation		579	703
- Street Lights		371	-
Plant & Equipment		33	33
Furniture & Fittings		66	69
Motor Vehicles		123	100
Intangible Assets		3	-
Other Assets		-	16
Subtotal		9,401	9,541
(ii) Impairment			
Nil			
Total Depreciation, Amortisation and Impairment		9,401	9,541

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 4. Asset Disposal & Fair Value Adjustments

\$ '000	Notes	2018	2017
Infrastructure, Property, Plant & Equipment			
(i) Assets Renewed or Directly Replaced			
Proceeds from Disposal		14	33
Gain (Loss) on Disposal		14	33
(ii) Assets Surplus to Requirements			
Proceeds from Disposal		50	1,854
Less: Carrying Amount of Assets Sold		-	(2,697)
Gain (Loss) on Disposal		50	(843)
Fair Value Adjustments			
Investment Property - Fair Value Increase / (Decrease)		(162)	406
Revaluation Decrements Expensed		(1,180)	-
Total Fair Value Adjustments		(1,342)	406
Net Gain (Loss) on Disposal or Revaluation of Assets		(1,278)	(404)

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 5. Current Assets

\$ '000	Notes	2018	2017
(a). Cash & Cash Equivalents			
Cash on Hand at Bank		6,981	5,980
Short Term Deposits & Bills, etc.		9,161	1,659
Total Cash & Cash Equivalents		16,142	7,639
(b). Trade & Other Receivables			
Rates - General & Other		938	724
Accrued Revenues		121	91
Debtors - General		24	156
GST Recoupment		176	220
Prepayments		78	117
Sundry		11	14
Animal Control		116	120
Parking and Traffic		164	157
Subtotal		1,628	1,599
Less: Allowance for Doubtful Debts		(130)	(4)
Total Trade & Other Receivables		1,498	1,595
(c). Other Financial Assets (Investments)			
Term Deposits Over 90 Days		4,500	15,000
Total Other Financial Assets (Investments)		4,500	15,000

Amounts included in other financial assets that are not expected to be received within 12 months of reporting date are disclosed in Note 13

Note 6. Non-Current Assets

Capital Works-in-Progress		1,717	3,864
Total Other Non-Current Assets		1,717	3,864

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 7a (i). Infrastructure, Property, Plant & Equipment

\$ '000	Fair Value Level	as at 30/6/2017				Asset Movements during the Reporting Period											as at 30/6/2018				
		At Fair Value	At Cost	Accumulated		Carrying Value	Asset Additions		WDV of Asset Disposals	Depreciation Expense (Note 3c)	WIP Transfers	Adjustments & Transfers	Trfs from/(to) "Held for Sale" category	Revaluation Decrements to P&L (Note 4)	Revaluation Decrements to Equity (ARR) (Note 9)	Revaluation Increments to Equity (ARR) (Note 9)	At Fair Value	At Cost	Accumulated		Carrying Value
				Dep'n	Impairment		New / Upgrade	Renewals											Dep'n	Impairment	
Land - Other	3	116,082	12,425	-	-	128,507	795	-	-	-	-	1,613	-	-	9,612	139,732	795	-	-	140,527	
Land Improvements	3	18,559	13,912	12,572	-	19,899	438	209	(677)	209	-	-	(1,180)	(7,304)	-	24,723	856	13,985	-	11,594	
Buildings & Other Structures	3	24,303	1,636	9,658	-	16,281	-	165	(891)	128	-	-	-	-	1,788	30,163	293	12,985	-	17,471	
Infrastructure																					
- Stormwater Drainage	3	125,942	29,042	63,440	-	91,544	9,366	-	(2,981)	421	-	-	-	-	88,726	243,605	-	56,529	-	187,076	
- Roads and Pavement	3	103,720	33,117	53,079	-	83,758	8,144	791	(2,619)	1,568	-	-	-	-	16,424	155,013	987	47,934	-	108,066	
- Kerbs and Guttering	3	31,432	2,983	17,016	-	17,399	-	-	(244)	-	-	-	-	-	2,179	24,374	-	5,040	-	19,334	
- Footpaths and Cycleways	3	21,398	7,885	11,591	-	17,692	4,705	590	(814)	197	-	-	-	(4,190)	9,241	45,542	-	18,121	-	27,421	
- Water and Irrigation	3	9,063	2,208	7,678	-	3,593	349	-	(579)	232	-	-	-	-	6,358	17,411	-	7,458	-	9,953	
- Street Lights	3	-	-	-	-	-	23,930	-	(371)	-	-	-	-	-	-	23,930	-	371	-	23,559	
Plant & Equipment	2	119	125	75	-	169	-	-	(33)	-	-	-	-	-	-	244	-	108	-	136	
Furniture & Fittings	2	554	343	741	-	156	10	-	(66)	-	-	-	-	-	-	955	10	865	-	100	
Motor Vehicles	3	815	528	978	-	365	233	-	(123)	-	-	-	-	-	-	1,289	-	814	-	475	
Intangible Assets	2	-	58	55	-	3	-	-	(3)	-	-	-	-	-	-	58	-	58	-	-	
Total Infrastructure, Property, Plant & Equipment		451,987	104,262	176,883	-	379,366	47,970	1,755	(9,401)	2,755	-	1,613	(1,180)	(11,494)	134,328	707,039	2,941	164,268	-	545,712	
Comparatives		453,922	73,432	167,577	-	359,777	23,492	7,400	(59)	(9,540)	-	(1,704)	-	-	-	451,987	104,262	176,883	-	379,366	

Note 7a (ii). Investment Property

Land		1,530	-	-	-	1,530	-	-	-	-	-	-	-	-	-	1,530	-	-	-	1,530
Buildings & Structures		5,406	-	-	-	5,406	-	-	-	-	-	-	(163)	-	-	5,243	-	-	-	5,243
Total Investment Property		6,936	-	-	-	6,936	-	-	-	-	-	-	(163)	-	-	6,773	-	-	-	6,773
Comparatives		6,600	-	70	-	6,530	-	-	-	-	-	-	-	(473)	879	6,936	-	-	-	6,936

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 7b. Valuation of Infrastructure, Property, Plant & Equipment & Investment Property

\$ '000

Valuation of Assets

The fair value of assets and liabilities must be estimated in accordance with various Accounting Standards for either recognition and measurement requirements or for disclosure purposes.

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a "level" in the fair value hierarchy as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Refer to Note 7a for the disclosure of the Fair Value Levels of Infrastructure, Property, Plant and Equipment Assets.

Information on Valuations

Certain land, and the buildings and structures thereon, are shown above as being based on fair value hierarchy level 2 valuation inputs. They are based on prices for similar assets in an active market, with directly or indirectly observable adjustments for specific advantages or disadvantages attaching to the particular asset.

Valuations of Crown land, community land and land subject to other restrictions on use or disposal, shown above as being based on fair value hierarchy level 3 valuation inputs, are based on prices for similar assets in an active market, but include adjustments for specific advantages or disadvantages attaching to the particular asset that are not directly or indirectly observable in that market, or the number and / or amount of observable adjustments of which are so great that the valuation is more fairly described as being based on level 3 valuation inputs.

There is no known market for buildings, infrastructure and other assets. These assets are valued at depreciated current replacement cost. This method involves:

- The determination of the cost to construct the asset (or its modern engineering equivalent) using current prices for materials and labour, the quantities of each being estimated based on recent experience of this or similar Councils, or on industry construction guides where these are more appropriate.
- The calculation of the depreciation that would have accumulated since original construction using current estimates of residual value and useful life under the prime cost depreciation method adopted by Council.

This method has significant inherent uncertainties, relying on estimates of quantities of materials and labour, residual values and useful lives, and the possibility of changes in prices for materials and labour, and the potential for development of more efficient construction techniques.

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 7b. Valuation of Infrastructure, Property, Plant & Equipment & Investment Property (continued)

\$ '000

Valuation of Assets (continued)

Other Information

At 1 July 2004 upon the transition to AIFRS, Council elected pursuant to AASB 1.D5 to retain a previously established deemed cost under GAAP as its deemed cost. With subsequent addition at cost, this remains as the basis of recognition of non-material asset classes.

Upon revaluation, the current new replacement cost and accumulated depreciation are re stated such that the difference represents the fair value of the asset determined in accordance with AASB 13 Fair Value Measurement: accumulated depreciation is taken to be the difference between current new replacement cost and fair value. In the case of land, current replacement cost is taken to be the fair value.

Highest and best use

All of Council's non financial assets are considered as being utilised for their highest and best use.

Transition to AASB 13 - Fair Value Measurement

The requirements of AASB 13 Fair Value Measurement have been applied to all valuations undertaken since 1 July 2013 as shown by the valuation dates by individual asset classes below.

Land & Land Improvements

- Basis of valuation: Fair Value
- Date of valuation: 30 June 2018.
- Valuer: Asset Val Pty Ltd

Buildings & Other Structures

- Basis of valuation: Fair Value
- Date of valuation: 30 June 2018.
- Valuer: Asset Val Pty Ltd

Infrastructure

Roads, Kerb and Gutter, Footpaths

- Basis of valuation: Fair Value
- Date of valuation: 30 June 2018.
- Valuer: Asset Val Pty Ltd

Stormwater Drainage

- Basis of valuation: Fair Value
- Date of valuation: 30 June 2018.
- Valuer: Asset Val Pty Ltd

Structures, Bridges, Car Parks

- Basis of valuation: Fair Value
- Date of valuation: 30 June 2018.
- Valuer: Asset Val Pty Ltd

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 7b. Valuation of Infrastructure, Property, Plant & Equipment & Investment Property (continued)

\$ '000

Valuation of Assets (continued)

Plant & Equipment

- Basis of valuation: Fair Value

Furniture & Fittings

- Basis of valuation: Fair Value

All other Assets

- Basis of valuation: Fair Value
- Date of valuation: 30 June 2018.
- Valuer: Asset Val Pty Ltd

Investment Property

- Basis of valuation: Fair Value
- Date of valuation: 30 June 2018.
- Valuer: Asset Val Pty Ltd

Most investment properties are leased to tenants under long term operating leases with rentals payable monthly (Note 18). Contractual obligations relating to the properties are disclosed in Note 14.

Note 8. Liabilities

\$ '000	Notes	2018	2018	2017	2017
		Current	Non Current	Current	Non Current
Goods & Services		464	-	556	-
Payments Received in Advance		97	-	98	-
Accrued Expenses - Employee Entitlements		132	-	132	-
Accrued Expenses - Other		1,775	-	1,865	-
Deposits, Retentions & Bonds		895	-	884	-
Total Trade and Other Payables		3,363	-	3,535	-

(b). Borrowings

Nil

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 8. Liabilities

\$ '000	Notes	2018 Current	2018 Non Current	2017 Current	2017 Non Current
(c). Provisions					
Employee Entitlements (including oncosts)		1,036	396	960	393
Future Reinstatement / Restoration, etc		2,000	1,348	2,981	3,335
Total Provisions		3,036	1,744	3,941	3,728

Movements in Provisions

\$ '000	Future Reinstatement
2018 (current & non-current)	
Opening Balance	6,316
(Less) Payments	(2,732)
(Less) Unused Amounts Reversed	(236)
Closing Balance	3,348

Note 9. Reserves

\$ '000	1/7/2017	Increments (Decrements)	Transfers	Impairments	30/6/2018
(a). Asset Revaluation Reserve					
Land - Other	114,414	9,612	-	-	124,026
Land Improvements	7,303	(7,304)	-	-	(1)
Buildings & Other Structures	5,648	1,788	-	-	7,436
Infrastructure					
- Stormwater Drainage	45,471	88,726	-	-	134,197
- Roads and Pavement	37,372	16,424	-	-	53,796
- Kerbs and Guttering	4,552	2,179	-	-	6,731
- Footpaths and Cycleways	4,193	5,051	-	-	9,244
- Water and Irrigation	-	6,358	-	-	6,358
Motor Vehicles	71	-	-	-	71
Waste Infrastructure	4,464	-	-	-	4,464
Total Asset Revaluation Reserve	223,488	122,834	-	-	346,322
Comparatives	223,488	-	-	-	223,488

City of Palmerston

Notes to and forming part of the Financial Statements

for the year ended 30 June 2018

Note 9. Reserves (continued)

\$ '000	1/7/2017	Tfrs to Reserve	Tfrs from Reserve	Other Movements	30/6/2018
(b). Other Reserves					
Property Reserve	1,077	-	(155)	-	922
Plant and Equipment Reserve	311	-	(39)	-	272
Infrastructure Reserve	4,109	6,470	(5,026)	-	5,553
Developer Funds Reserve	4,670	573	(257)	-	4,986
Unexpended Capital Works Reserve	3,217	845	(3,217)	-	845
Unexpended Grants Reserve	-	1,776	-	-	1,776
Election Expenses Reserve	150	150	(150)	-	150
Disaster Recovery Reserve	500	500	(500)	-	500
Strategic Initiatives Reserve	500	140	(340)	-	300
Community Grants Reserve	100	-	-	-	100
Waste Management Reserve	1,313	-	(1,287)	-	26
Street Lighting Reserve	811	-	(500)	-	311
Total Other Reserves	16,758	10,454	(11,471)	-	15,741
Comparatives	14,322	9,351	(6,915)	-	16,758

PURPOSES OF RESERVES

Asset Revaluation Reserves

The asset revaluation reserve is used to record increments and decrements arising from changes in fair value of non current assets (less any subsequent impairment losses, where applicable).

Property Reserve

The reserve holds funding for renewal, replacement or upgrading of existing assets and/or the establishment of new assets.

Plant and Equipment Reserve

The reserve holds funding for renewal, replacement or upgrading of existing assets and/or the establishment of new assets.

Infrastructure Reserve

The reserve holds funding for renewal, replacement or upgrading of existing assets and/or the establishment of new assets.

Developer Funds Reserve

This reserve holds the balance of unexpended funds for payment in lieu of construction received by developers.

Unexpended Capital Works Reserve

This reserve holds the balance of unexpended capital works funds that are to be carried forward to the following financial year.

Unexpended Grants Reserve

This reserve holds the balance of unexpended grant funds that are to be carried forward to the following financial year.

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 9. Reserves (continued)

\$ '000

(b). Other Reserves (continued)

Election Expense Reserve

The reserve will fund expenses related to Local Government elections and By- Elections.

Disaster Recovery Reserve

This reserve will fund expenses occurred due to storms, storm surges, floods or any other natural disaster. The fund will enable City of Palmerston to recover from these disasters and return to operations.

Strategic Initiatives Reserve

This reserve will fund strategic initiatives for the future development of the City of Palmerston in line with the Municipal Plan and the Long-Term Financial Plan.

Community Grants Reserve

This reserve is in line with the Grants, Scholarship and Sponsorship Policy (FIN18) of the Council and holds funds that have been committed to initiatives in line with that policy.

Waste Management Reserve

This reserve holds funds for the direct and indirect expenditures of the rehabilitation of the waste transfer site and development of the site to accommodate expected future requirements.

Street Lighting Reserve

This reserve holds funds received from the Northern Territory Government that will be utilised on the maintenance and upgrade of the street lights.

Note 10. Assets Subject to Restrictions

\$ '000

Notes

2018

2017

The uses of the following assets are restricted, wholly or partially, by legislation or other externally imposed requirements. The assets are required to be utilised for the purposes for which control was transferred to Council, or for which the revenues were originally obtained.

Cash & Financial Assets

Unexpended amounts received from Federal Government

Unexpended amounts received from the Northern Territory Government

1,776

-

Total Cash & Financial Assets

1,776

-

Total Assets Subject to Externally Imposed Restrictions

1,776

-

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 11. Reconciliation to Statement of Cash Flows

\$ '000	Notes	2018	2017
(a). Reconciliation of Cash			
Cash Assets comprise highly liquid investments with short periods to maturity subject to insignificant risk of changes of value. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:			
Total Cash & Equivalent Assets	5	16,142	7,639
Balances per Statement of Cash Flows		16,142	7,639
(b). Reconciliation of Change in Net Assets to Cash from Operating Activities			
Net Surplus/(Deficit)		40,556	26,117
Non-Cash Items in Income Statements			
Depreciation, Amortisation & Impairment		9,401	9,540
Fair Value Adjustments		1,342	(406)
Non-Cash Asset Acquisitions		(46,933)	(23,492)
Grants for Capital Acquisitions (Treated as Investing Activity Receipts)		(2,390)	(4,785)
Net (Gain) Loss on Disposals		(64)	810
Landfill Rehabilitation		-	(622)
		1,912	7,162
Add (Less): Changes in Net Current Assets			
Net (Increase)/Decrease in Receivables		(29)	(180)
Change in Allowances for Under-Recovery of Receivables		(126)	(1)
Net (Increase)/Decrease in Other Current Assets		252	-
Net Increase/(Decrease) in Trade & Other Payables		(183)	(345)
Net Increase/(Decrease) in Unpaid Employee Benefits		79	-
Net Increase/(Decrease) in Other Provisions		(2,968)	(1,390)
Net Cash provided by (or used in) operations		(1,063)	5,246
(c). Non-Cash Financing and Investing Activities			
Acquisition of assets by means of:			
- Physical Resources Received Free of Charge	2i	46,933	23,492
Amounts recognised in Income Statement		46,933	23,492
Total Non-Cash Financing & Investing Activities		46,933	23,492
(d). Financing Arrangements			
Unrestricted access was available at balance date to the following lines of credit:			
Corporate Credit Cards		100	70

The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice.

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 12. Functions

Functions/Activities	Income, Expenses and Assets have been directly attributed to the following Functions / Activities. Details of these Functions/Activities are provided in Note 12(b).												
	INCOME			EXPENSES			OPERATING SURPLUS (DEFICIT)			GRANTS INCLUDED IN INCOME		TOTAL ASSETS HELD (CURRENT & NON-CURRENT)	
	Budget 2018	Actual 2018	Actual 2017	Budget 2018	Actual 2018	Actual 2017	Budget 2018	Actual 2018	Actual 2017	Actual 2018	Actual 2017	Actual 2018	Actual 2017
\$ '000													
General Public Services	22,433	22,832	22,285	22,470	23,503	17,791	(37)	(671)	4,494	1,027	2,293	24,332	30,480
Public Order and Safety	509	509	560	858	847	934	(349)	(338)	(374)	-	-	-	68
Economic Affairs	4,570	4,860	7,832	3,237	3,279	3,506	1,333	1,581	4,326	3,882	6,214	343,478	268,733
Environmental Protection	7,108	7,108	7,265	5,744	5,663	5,339	1,364	1,445	1,926	3	-	-	-
Housing and Community Amenities	-	-	-	1,032	1,035	1,124	(1,032)	(1,035)	(1,124)	-	-	30,333	62,357
Recreation, Culture and Religion	958	958	833	7,116	7,036	7,049	(6,158)	(6,078)	(6,216)	598	574	178,199	52,553
Social Protection	2	-	-	3	3	3	(1)	(3)	(3)	-	1	-	1,822
Total Functions/Activities	35,580	36,267	38,775	40,460	41,366	35,746	(4,880)	(5,099)	3,029	5,510	9,082	576,342	416,013

Revenues and expenses exclude net gain (loss) on disposal or revaluation of assets, net gain (loss) from joint ventures & associated entities, amounts received specifically for new or upgraded assets and physical resources received free of charge.

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 13. Financial Instruments

\$ '000

Recognised Financial Instruments

Bank, Deposits at Call, Short Term Deposits

Accounting Policy:

Carried at lower of cost and net realisable value; Interest is recognised when earned.

Terms & Conditions:

Deposits are returning fixed interest rates between 2.55% and 2.80% (2017: 2.53% and 3.20%). Short term deposits have an average maturity of 65 days and an average interest rate of 2.65% (2017: 156 days and 2.79%).

Carrying Amount:

Approximates fair value due to the short term to maturity.

Receivables

Rates & Associated Charges

(including legals & penalties for late payment)

Note: These receivables do not meet the definition of "financial instruments" and have been excluded from the following disclosures.

Accounting Policy:

Carried at nominal values less any allowance for doubtful debts. An allowance for doubtful debts is recognised (and re-assessed annually) when collection in full is no longer probable.

Terms & Conditions:

Secured over the subject land, arrears attract interest of 18% (2017: 18%). Council is not materially exposed to any individual debtor, credit risk exposure is concentrated within the Council's boundaries in the State.

Carrying Amount:

Approximates fair value (after deduction of any allowance).

Receivables

Fees & Other Charges

Accounting Policy:

Carried at nominal values less any allowance for doubtful debts. An allowance for doubtful debts is recognised (and re-assessed annually) when collection in full is no longer probable.

Terms & Conditions:

Unsecured, and do not bear interest. Council is not materially exposed to any individual debtor, credit risk exposure is concentrated within the Council's boundaries.

Carrying Amount:

Approximates fair value (after deduction of any allowance).

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 13. Financial Instruments (continued)

 \$ '000

Recognised Financial Instruments

Receivables

Other Levels of Government**Accounting Policy:**

Carried at nominal value.

Terms & Conditions:

Amounts due have been calculated in accordance with the terms and conditions of the respective programs following advice of approvals, and do not bear interest. All amounts are due by Departments and Agencies of State and Federal Governments.

Carrying Amount:

Approximates fair value.

Receivables

Retirement Home Contributions**Accounting Policy:**

Carried at nominal values less any allowance for doubtful debts. An allowance for doubtful debts is recognised (and re-assessed annually) when collection in full is no longer probable.

Terms & Conditions:

Amounts due have been calculated in accordance with the terms and conditions of the respective legislation.

Carrying Amount:

Approximates fair value (after deduction of any allowance).

Liabilities

Creditors and Accruals**Accounting Policy:**

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Council.

Terms & Conditions:

Liabilities are normally settled on 30 day terms.

Carrying Amount:

Approximates fair value.

Liabilities

Finance Leases**Accounting Policy:**

Accounted for in accordance with AASB 117.

City of Palmerston

Notes to and forming part of the Financial Statements

for the year ended 30 June 2018

Note 13. Financial Instruments (continued)

\$ '000	Due < 1 year	Due > 1 year & ≤ 5 years	Due > 5 years	Total Contractual Cash Flows	Carrying Values
2018					
<u>Financial Assets</u>					
Cash & Equivalents	6,981	-	-	6,981	16,142
Receivables	436	-	-	436	436
Other Financial Assets	13,661	-	-	13,661	4,500
Total Financial Assets	21,078	-	-	21,078	21,078
<u>Financial Liabilities</u>					
Payables	12,183	-	-	12,183	3,363
Total Financial Liabilities	12,183	-	-	12,183	3,363
2017					
<u>Financial Assets</u>					
Cash & Equivalents	7,648	-	-	7,648	7,639
Receivables	537	-	-	537	537
Other Financial Assets	15,218	-	-	15,218	15,000
Total Financial Assets	23,403	-	-	23,403	23,176
<u>Financial Liabilities</u>					
Payables	3,535	-	-	3,535	3,535
Total Financial Liabilities	3,535	-	-	3,535	3,535

Risk Exposures

Credit Risk represents the loss that would be recognised if counterparties fail to perform as contracted. The maximum credit risk on financial assets of the Council is the carrying amount, net of any allowance for doubtful debts. All Council investments are made with the SA Local Government Finance Authority and are guaranteed by the SA Government. Except as detailed in Notes 5 & 6 in relation to individual classes of receivables, exposure is concentrated within the Council's boundaries, and there is no material exposure to any individual debtor.

Market Risk is the risk that fair values of financial assets will fluctuate as a result of changes in market prices. All of Council's financial assets are denominated in Australian dollars and are not traded on any market, and hence neither market risk nor **currency risk** apply.

Liquidity Risk is the risk that Council will encounter difficulty in meeting obligations with financial liabilities. In accordance with the model Treasury Management Policy (LGA Information Paper 15), liabilities have a range of maturity dates. Council also has available a range of bank overdraft and standby borrowing facilities that it can access.

Interest Rate Risk is the risk that future cash flows will fluctuate because of changes in market interest rates. Council has a balance of both fixed and variable interest rate borrowings and investments. Cash flow fluctuations are managed holistically in seeking to minimise interest costs over the longer term in a risk averse manner.

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 14. Commitments for Expenditure

\$ '000	Notes	2018	2017
(a). Capital Commitments			
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:			
Buildings		-	13,566
Roads & Footpaths		275	394
		275	13,960
These expenditures are payable:			
Not later than one year		275	13,915
Later than one year and not later than 5 years		-	45
Later than 5 years		-	-
		275	13,960
(b). Other Expenditure Commitments			
Other expenditure committed for (excluding inventories) at the reporting date but not recognised in the financial statements as liabilities:			
Audit Services		28	-
Waste Management Services		3,113	6,885
Other Maintenance Contracts		1,752	-
Landscaping and Mowing		2,852	997
Civil Works		2,277	3,836
Other		804	1,439
		10,826	13,157
These expenditures are payable:			
Not later than one year		7,441	7,397
Later than one year and not later than 5 years		3,314	5,760
Later than 5 years		71	-
		10,826	13,157

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 15. Financial Indicators

\$ '000	Indicator 2018	Prior Periods 2017 2016	
1. Current Ratio			
<u>Current Assets less Externally Restricted Assets</u>	3.23	3.46	3.75
Current Liabilities			
2. Debt Service Ratio			
<u>Net Debt Service Cost</u>	0.00	0.00	0.00
Operating Revenue			
3. Rate Coverage Percentage			
<u>Rate Revenues</u>	56.67%	57.89%	30.02%
Total Revenues			
4. Rates and Annual Charges Outstanding			
<u>Rates & Annual Charges Outstanding</u>	3.39%	3.57%	3.16%
Rates & Annual Charges Collectible			

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 16. Operating Leases

\$ '000	2018	2017
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Leases Providing Revenue to the Council

Council owns various buildings, plant and other facilities that are available for hire or lease (on a non-cancellable basis wherever practicable) in accordance with the published revenue policy. Rentals received from such leases are disclosed as rent and hire of non-investment property in Note 2.

(i) Investment Property

Rentals received, and outgoings reimbursed, in relation to Investment Property are also disclosed in Note 2. These lease agreements, all of which are classified as operating leases, are made on a non-cancellable basis wherever practicable.

Leases commitments under all non-cancellable lease agreements, including those relating to Investment Property, are as follows:

Not later than one year	616	715
Later than one year and not later than 5 years	1,903	2,069
Later than 5 years	393	1,341
	2,912	4,125

(ii) Lease Payment Commitments of Council

Council has entered into non-cancellable operating leases for various items of computer and other plant and equipment.

No contingent rentals were paid during the current or previous reporting periods.

No lease imposes any additional restrictions on Council in relation to additional debt or further leasing.

Leases in relation to computer and office equipment permit Council, at expiry of the lease, to elect to re-lease return or acquire the equipment leased.

No lease contains any escalation clause

Commitments under non-cancellable operating leases that have not been recognised in the financial statements are as follows:

Not later than one year	94	126
Later than one year and not later than 5 years	58	166
Later than 5 years	-	-
	152	292

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 17. Superannuation

\$ '000

The Council makes employer superannuation contributions in respect of its employees to the following schemes;

Statewide Super Scheme (under Local Government Superannuation Scheme)

Statewide Super receives both employer and employee contributions on a progressive basis. Employer contributions are based on a fixed percentage of employee earnings in accordance with superannuation guarantee legislation (9.50% in 2017/18; 9.50% in 2016/17). No further liability accrues to the Council as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

Contributions to Other Superannuation Schemes

The Council also makes contributions to other superannuation schemes selected by employees under the "choice of fund" legislation. All such schemes are of the accumulation type, where the superannuation benefits accruing to the employee are represented by their share of the net assets of the scheme, and no further liability attaches to the Council.

Note 18. Interests in Other Entities

Council has no interest in any Equity Accounted Businesses such as Joint Ventures, Associates & Joint Operations.

Note 19. Non-Current Assets Held for Sale & Discontinued Operations

\$ '000

2018

2017

Non Current Assets & Disposal Group Assets

- Land	-	1,613
Total Non Current Assets & Disposal Group Assets	-	1,613

In 2017 an option existed for a developer to purchase a parcel of land. In 2018 the option expired and therefore the land is no longer held for sale.

City of Palmerston

Notes to and forming part of the Financial Statements for the year ended 30 June 2018

Note 20. Contingencies & Assets/Liabilities Not Recognised in the Balance Sheet

The following assets and liabilities do not qualify for recognition in the Balance Sheet, but knowledge is considered relevant to the users of the financial report in making and evaluating decisions about the allocation of scarce resources.

1. LAND UNDER ROADS

As reported in the Financial Statements, Council is of the opinion that it is not possible to attribute a value sufficiently reliably for these assets to qualify for recognition, and accordingly land under roads has not been recognised in the reports. Land acquired for road purposes during the year is initially recognised at cost, but transferred to fair value at reporting date, effectively writing off the expenditure.

2. POTENTIAL INSURANCE LOSSES

Council is a multi-purpose organisation providing a large range of building, parks infrastructure, playgrounds and other facilities accessible to the public. At any time, it is likely that claims will have been made against Council that remain unsettled.

Council insures against all known insurable risks using a range of insurance policies, each of which is subject to deductible "insurance excesses", the amount of which varies according to the class of insurance.

Council has recognised the potential losses arising from claims known at reporting date based on average historical net cost (including insurance excess) of similar types of claims. Other potential claims not reported to Council may have existed at reporting date.

Note 21. Events after the Balance Sheet Date

Events that occur after the reporting date of 30 June 2018, up to and including the date when the financial statements are "authorised for issue" have been taken into account in preparing these statements.

Council has adopted the date of receipt of the Auditors' Report as the appropriate "authorised for issue" date relating to these General Purpose Financial Statements.

Accordingly, the "authorised for issue" date is dd/mm/yy.

Council is unaware of any material or significant "non adjusting events" that should be disclosed.

City of Palmerston

Notes to and forming part of the Financial Statements
for the year ended 30 June 2018

Note 22. Related Party Transactions

\$ '000	2018	2017
---------	------	------

Key Management Personnel

Transactions with Key Management Personnel

The Key Management Personnel of the Council include the Mayor, Councillors, CEO and certain prescribed officers under section 112 of the *Local Government Act*. In all, 16 persons were paid the following total compensation:

The compensation paid to Key Management Personnel comprises:

Salaries, Allowances and Other Short-Term Employee Benefits	1,267	1,034
Total	1,267	1,034

Amounts paid as direct reimbursement of expenses incurred on behalf of Council have not been included above.

City of Palmerston

General Purpose Financial Statements
for the year ended 30 June 2018

Auditor's Report - Financial Statements

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City of Palmerston

General Purpose Financial Statements
for the year ended 30 June 2018

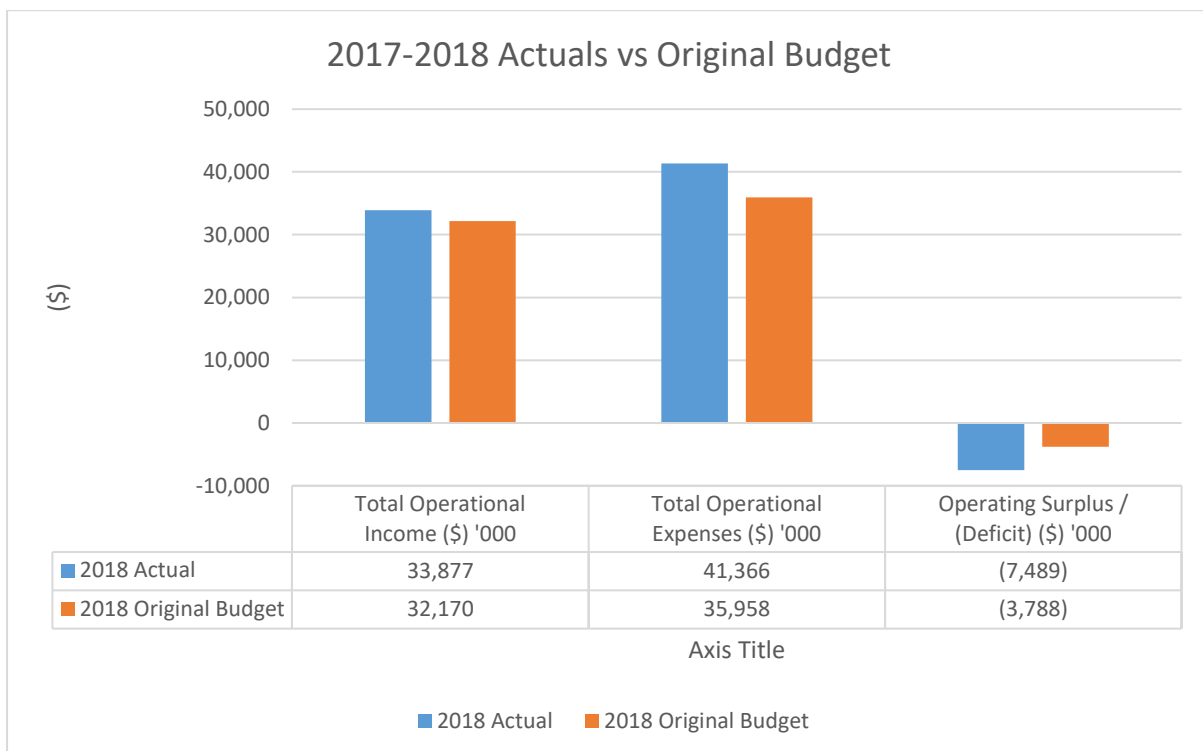
Auditor's Report - Financial Statements

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2017/18 Financial Statement Review

In the 2017/18 financial year, City of Palmerston generated a total comprehensive income surplus of \$163.390 million. Total comprehensive income is inclusive of one-off items such as revaluation movements on assets, non-recurring capital grants received as well as assets and contributions received free of charge from developers and the Northern Territory Government. Once these items are removed Council ended the financial year with an operational deficit of \$7.489 million. The original budget for the 2017-18 year showed Council having an operational deficit of \$3.788 million. The main reason for the significant variance is the cost of the clean-up efforts undertaken by the City of Palmerston in response to Tropical Cyclone Marcus that hit the city in March 2018. Council spent \$2.923 million on the clean-up in the 2017-18 financial year. All other variances were explained in detail in the Budget Reviews for the 2017-18 financial year which are publicly available on Council's website.

Description	2018 Actual	2018 Original Budget	% Change Budget to Actual
Total Operational Income (\$) '000	33,877	32,170	5.31%
Total Operational Expenses (\$) '000	41,366	35,958	15.04%
Operating Surplus / (Deficit) (\$) '000	(7,489)	(3,788)	97.70%



Income

Total Income Including Capital Grants	2018 – Actual \$,000's	2018 - Original Budget \$,000's	% Change Budget to Actual
Rates & Annual Charges	27,658	26,910	2.78%
Statutory Charges	177	195	-9.23%
User Charges	1,451	1,931	-24.86%
Grants, Subsidies & Contributions	3,120	2,338	33.45%
Capital Grants and Contributions	2,390	709	237.09%
Investment Income	1,152	746	54.42%
Reimbursements & Other Revenue	310	53	484.91%
Total Income	36,258	32,882	10.27%

Changes of more than 10% are explained below

User Charges

The significant reduction in user charges for the 2017/18 financial year compared to the original budget is related almost exclusively to car parking. The previous Council had planned to construct a multi-story paid carpark that was expected to be operational within the financial year. Council had also just previously introduced paid parking into the city centre in June 2017. With the multi-story carpark not proceeding and higher than anticipated vacancy rates on existing carparks Council revised the original budget down by \$500,000 in the Second Budget Review for 2017/18.

Grants, Subsidies & Contributions including Capital

Grant Funding income inclusive of capital grants forms the largest variance to budgeted income of approximately \$2.463 million. This occurred as Council only originally budgeted to receive the recurring Financial Assistance Grant provided through the Northern Territory Government with Commonwealth Government funds, the Roads to Recovery capital grant from the Commonwealth Government and finally the Library Grant received from the Northern Territory Government. However, throughout the financial year Council was successful in applying for and receiving a considerable amount of extra grant funding from the Northern Territory Government. The details of each grant received is provided in Note 2 (j) in the attached financial statements and all revisions to the budget to account for these grants were made throughout the year via the budget review process.

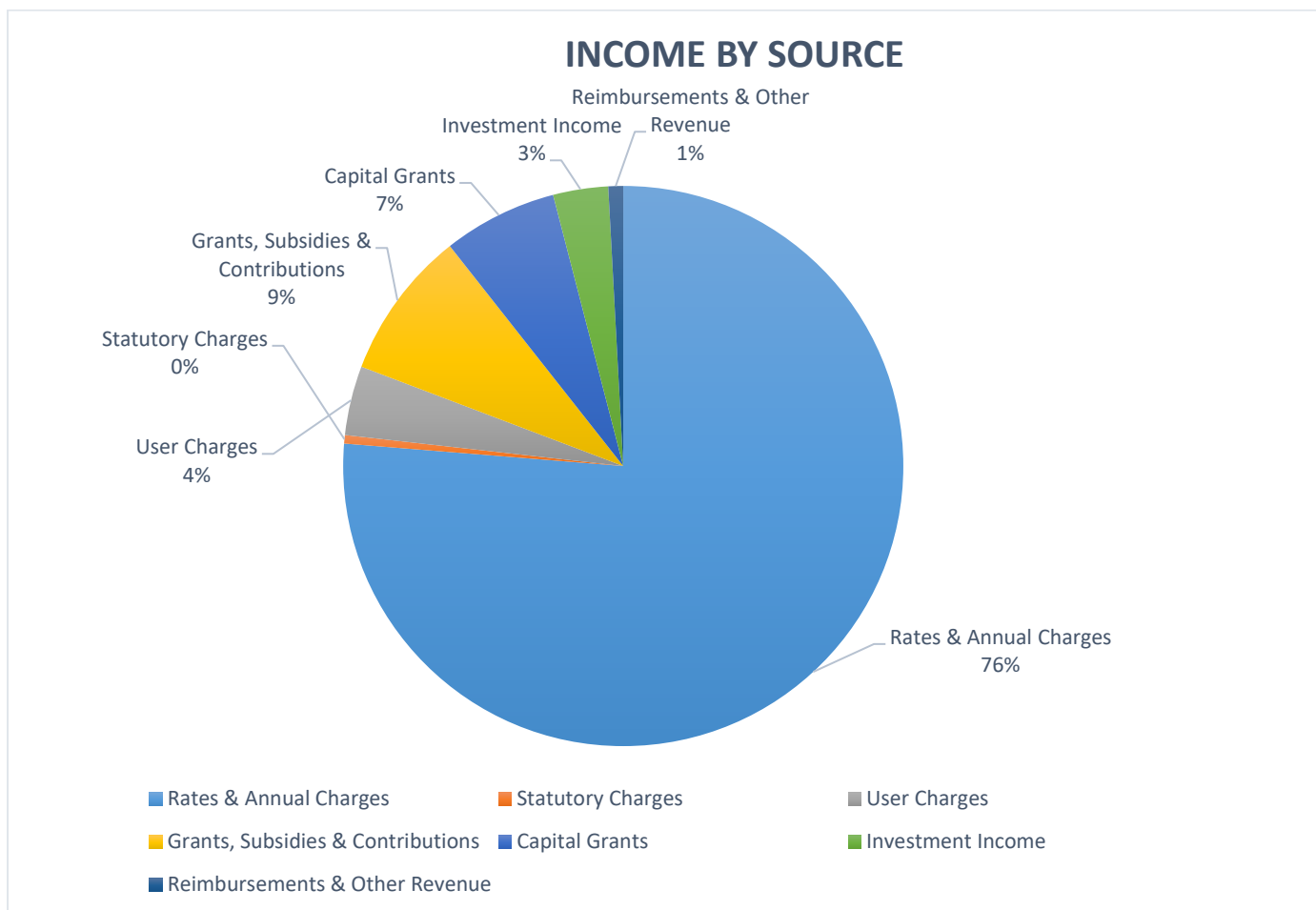
Investment Income

Investment income for the 2017/18 financial year was above the original budget by 54% or \$406,000. This variance was primarily due to actual cashflow improvements compared to budget due to the decision to not construct a multi-story carpark. This allowed Council to invest the now unrequired reserves into term deposits and was able to generate additional income.

Reimbursements & Other Revenue

During the 2015/16 financial year, Council recognised an \$8.5 million expense in relation to the pollution abatement notice (PAN) that was served upon it in the 2014/15 financial year. The rehabilitation work is to be completed in three stages with an estimate provided for the cost of each stage. In 2017/18 Council went to tender for stage 3 of the rehabilitation work and the successful tenderer is able to undertake the work at a lower cost than initially estimated for a variety of reasons. Consequently, a reversal of a portion of the expense related to the PAN to the value of \$236,000 has been recognised in other revenues and the provision in the balance sheet adjusted downwards accordingly.

The original budget for the 2017/18 year only considered minor reimbursements or other income and consequently actuals achieved has resulted in significant percentage fluctuations in this category. Budget reviews were undertaken throughout the year to recognise changes in income to this category.



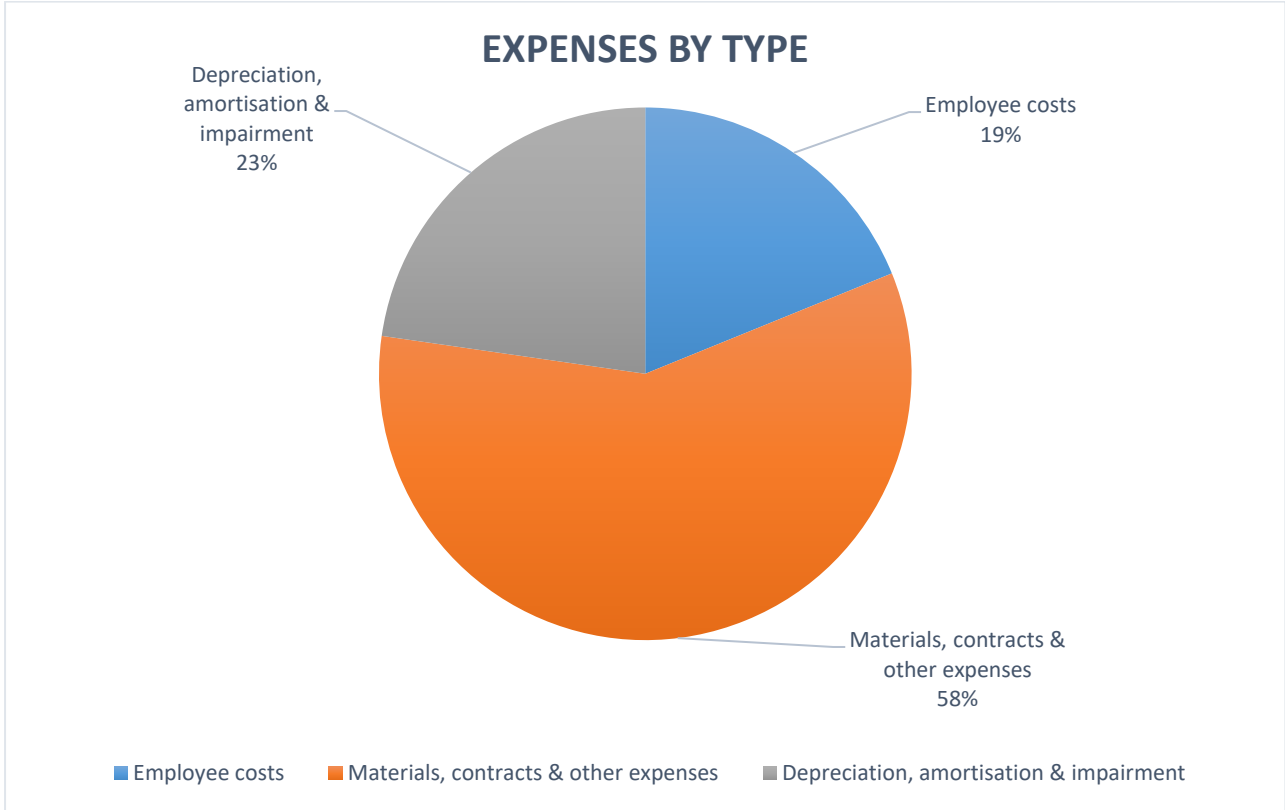
Expenses

Description	2018 - Actual	2018 - Original Budget	% Change Budget to Actual
Employee costs	7,797	7,344	6.17%
Materials, contracts & other expenses	24,168	19,793	22.10%
Depreciation, amortisation & impairment	9,401	8,820	6.59%
Total Expenses	41,366	35,957	15.04%

Changes of more than 10 % are explained below

Materials, Contracts & Other Expenses

The only material variance in relation to expenses between the original budget and actuals for the 2017/18 financial year was in materials, contracts and other expenses. The single largest contributing factor to this variance was the clean-up efforts undertaken by the City of Palmerston in relation to the damage caused by Tropical Cyclone Marcus. Council funded this clean-up by using \$500,000 of a specific purpose reserve for disaster recovery and by deferring non-urgent capital projects and reallocated the funds to the clean-up. The remaining variance relates to a number of smaller adjustments but includes; increases in professional services, maintenance of street lighting and insurance. Full details of all budget adjustments are reflected in the budget review process and are publicly available on Council’s website.



Other Items of interest**Revaluation Surplus**

During the 2017/18 financial year, Council obtained services from an engineering firm to provide the Council with current usual lives for its assets. Usual lives determine how long an asset will last before the asset needs to be replaced or upgraded. As well as reviewing the usual lives of the assets a full financial revaluation was completed across all classes of infrastructure assets and land resulting in an increase in fair value of the assets to the total value of \$122.834 million.

External Loan Borrowings

In the 2017-2022 Municipal Plan, Council had originally budgeted to take out two separate loans to the value of \$12 million. The first loan was to fund stage 2 of the Archer remediation to the value of \$2 million. Council was able to fund this stage from the waste reserve instead and deferred applying for the loan. This loan is now included in the 2018-19 Municipal Plan to fund Stage 3 of the remediation works. Secondly, a loan for \$10 million was proposed to assist in funding the multi-story carpark. This project was reassessed during the financial year and was deemed as no longer being a priority for the City of Palmerston and the project was removed during the budget review process. Consequently, Council did not apply for any funds in relation to this project.

Reserves

Council held \$15.741 million in reserves at 30th June 2018. This is an increase of \$7.452 million from the anticipated reserve balance in the Municipal Plan of \$8.289 million. Firstly, the opening balance of reserves in the 2017/18 was significantly higher than what was predicted in the Municipal Plan by \$4.049 million. This increase in the opening balance predominately related to the carry-over capital works budget from the 2016/17 financial year into the 2017/18 financial year to the value of \$3.22 million. The remaining improvement in the expected reserve balance relates to not proceeding with the multi-story carpark that was originally budgeted for. It was budgeted that \$4.5 million would be paid out of reserves to fund the project with the remainder coming from an external loan. Consequently, these funds were never drawn out of reserves. During 2017/18, Council also funded stage 2 of the remediation works at the previous Archer Landfill from the waste reserve. It was originally budgeted to take out a \$2 million external loan to fund the works. Council determined that the loan was not needed in the 2017/18 financial year and deferred the draw down of the loan to 2018/19.

AGENDA ITEM:	11.1
REPORT TITLE:	External Audit Plan for 30 June 2018
REPORT NUMBER:	9RMA/003
MEETING DATE:	24 October 2018
Author:	Finance Manager, Shane Nankivell
Approver:	Director of Corporate Services, Chris Kelly

PURPOSE

This report provides the Committee with risk ratings and management responses to the interim audit.

Municipal Plan:

4. Governance & Organisation

4.1 Responsibility

- 4.1 We are committed to corporate and social responsibility, the sustainability of Council assets and services, and the effective planning and reporting of Council performance to the community.

KEY ISSUES

- Risk ratings have been applied to the five audit observations. Four of the observations were considered low with IT Controls rated as moderate.
- Management responses to the audit observations have now also been included in the final version of the report.

RECOMMENDATION

THAT Report Number 9RMA/003 entitled External Audit Plan for 30 June 2018 be received and noted.

BACKGROUND

7.1 *External Audit Plan for Review of Financial Year Ended 30 June 2018* RMA/074

Moved: *Alderman Henderson*

Seconded: *Alderman Garden*

THAT the Risk Management and Audit Committee recommend to the Council:

1. *THAT Report Number RMA/074 entitled External Audit Plan for Review of Financial Year ended 30 June 2018 be received and noted.*

2. THAT the Risk Management and Audit Committee recommend to Council the proposed draft External Audit Plan of Council's financial statements for the financial year ended 30 June 2018 as **Attachment A** to Report Number RMA/074 entitled External Audit Plan for Review of Financial Year ended 30 June 2018.
3. THAT the Risk Management and Audit Committee recommends that Merit Partners be asked to risk rate items contained within section 6.3 of **Attachment A** to Report Number RMA/074 entitled External Audit Plan for Review of Financial Year ended 30 June 2018.
4. THAT a further report be provided to the Risk Management and Audit Committee which includes management responses for the October 2018 meeting.

CARRIED RMA9/0003 - 04/07/2018

DISCUSSION

Merit Partners undertook an interim audit at Council premises in May 2018, and a draft audit plan was prepared. This plan was presented in draft form to the Committee on 4 July 2018. Since that time the report as **Attachment A** has been finalised with risk ratings of the identified audit observations included as requested by the Committee. The report also now includes management responses to the audit observations. The risk ratings and management responses can be found in Appendix C in **Attachment A**. As noted in the attachment, the moderate risk observation of IT General Controls will be addressed by the newly created and filled position of Manager Information and Digital Innovation throughout the financial year, and a progress report will be provided to the Committee at the next meeting.

To date, Council has already implemented changes to current IT system security group policies which now enforce staff to regularly change their password. The new policy is now in line with industry practice and will lower Council's IT security risk significantly. This particular change also now starts Council's security awareness improvement path, where staff behaviours and understanding around IT security must be a supported cultural shift.

CONSULTATION PROCESS

During the preparation of this report the following internal officers were consulted:

- Manager Information and Digital Strategy

POLICY IMPLICATIONS

There are no policy implication for this report.

BUDGET AND RESOURCE IMPLICATIONS

There are no budget implications for this report.

RISK, LEGAL AND LEGISLATIVE IMPLICATIONS

Five risks have been observed during the interim audit and a risk rating applied to each risk. The only risk that is not considered low is IT General Controls. This risk will be address by the Manager Information and Digital Innovation. It is also anticipated the Council's internal auditor KPMG will provide an internal audit on IT security and provide recommendation to officers for implementation.

ENVIRONMENT SUSTAINABILITY IMPLICATIONS

There are no environment sustainability implications from this report.

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the author and approving officer declare that we do not have a conflict of interest in relation to this matter.

ATTACHMENTS

Attachment A: Audit Plan for the year ending 30 June 2018

City of Palmerston

Audit plan for the year ended 30 June 2018





Private and confidential

26 July 2018

The Council
City of Palmerston
PO Box 1
Palmerston NT 0831

Dear Council Members

We are pleased to present our Audit Plan ("Plan") for the audit of City of Palmerston ("the Council") for the year ended 30 June 2018. This Plan outlines the scope of our services, identifies Merit Partners ("MP") professionals who will serve you and presents our understanding of some key considerations that will affect the 2018 audit, including matters arising from the recent interim audit.

Our audit is designed to express an opinion on the 2018 full year financial statements. Our current year 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. The Plan will be responsive to your needs and will maximise audit effectiveness so we can deliver the high quality audit you expect.

Our commitment to quality will be reflected in every aspect of our work. If you have any questions or comments, please contact myself or Candice Thomson on 8982 1417.

Yours faithfully

A handwritten signature in black ink, appearing to read "MunLi Chee", is written over a horizontal line.

MunLi Chee
Partner

cc Mr Shane Nankivell

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1. Executive Summary

1.1 Introduction

As part of our engagement as the External Auditors of City of Palmerston (“the Council”), we will undertake a financial statement audit of the Council for the year ended 30 June 2018. Our audit process, which comprises of a planning and interim audit and a year-end audit, will focus on those risks with the potential for significant financial statement impact.

1.2 Our Audit

Our audit procedures are designed to assist us to form an opinion at year-end as to whether the financial report as a whole, will be presented in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Local Government Act*.

During the interim audit, we have made an assessment of the internal control environment of the Council. We have documented the business and accounting processes of the Council, including the internal controls over these processes. We have performed walkthroughs and test of key controls.

Following the outcome of the controls testing during the interim audit, we have determined the nature, timing and extent of the substantive audit that we need to perform at year end. Where we have identified significant weaknesses in internal controls we will bring them to the attention of management via the management letter. Findings from the interim audit have been documented in Section 6.

Our audit is primarily designed to enable us to express an opinion on the fairness of the year-end financial report, on a material basis.

1.3 Audit Plan Highlights

Audit approach	<p>Our scope, which is based on the size and risk of the Council, is set out in Section 2 of this report.</p> <p>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 are outlined in Section 2.4 of this report. 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 have assessed the IT general controls environment during the interim audit.</p> <p>We will adopt a substantive approach to areas that requires significant judgement by management including:</p> <ul style="list-style-type: none"> • The assessment of impairment over Property, Plant and Equipment; • The assessment of Doubtful Debts; • The estimates and factors influencing the calculation of Employee Entitlements; and
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1.3 Audit Plan Highlights (continued)

Audit approach (continued)	<ul style="list-style-type: none"> The estimates and factors influencing the calculation of Provisions including the Future Reinstatement & Restoration of the Landfill.
Materiality	<p>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.</p> <p>Our planning materiality has been set at \$630,000 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 \$31,000.</p>
Risk assessment and areas of audit focus	<p>As part of our risk assessment process, we have held discussions with Council management to understand the key changes in the business and adapt our audit approach accordingly. Matters arising from these discussions will be incorporated into our key areas of audit focus.</p> <p>Our key focus areas are summarised below and explained in detail in Section 3 of this report:</p> <ul style="list-style-type: none"> Going Concern; Valuation of Assets; Application of Future Applicable Accounting Standards, in particular AASB 15 <i>Revenue from Contracts with Customers</i>, AASB 1058 Income for Not-for-profit Entities, and AASB 16 <i>Leases</i>; Compliance with <i>Australian Accounting Standards</i>, the <i>Local Government Act</i> and other applicable Laws and Regulations; and Fraud Related matters. <p>These matters will be updated at the final audit.</p>

1.3 Audit Plan Highlights (continued)

Key Financial Processes	<p>During the interim audit, we have documented the Council's key processes and tested key controls relating to the following processes:</p> <ul style="list-style-type: none"> • Revenue and receipts; • Procurement/Purchases and payments; • Payroll and related payments; • Bank reconciliations; • Property, plant and equipment – purchases & disposals; and • Financial Statement Close Process. <p>Refer also to Section 2 for the audit approach.</p>
Financial Reporting Risks and Accounting Issues	<p>Our assessment of the key financial reporting risks and audit and accounting issues facing the Council in 2018 and our plan to address these during our audit are in Section 3 of this report.</p>
Independence	<p>We confirm our independence requirements with <i>APES 110 Code of Ethics for Professional Accountants</i>, 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.</p>
Engagement execution and reporting	<p>We have set out the scope of our audit in Section 2 of this report.</p> <p>We continue to regularly engage with the Council's finance and management teams as part of our audit planning and execution. We have set out in Appendix B a summary of our communication and deliverables throughout our audit.</p>

2. An Effective Audit Approach

Our audit is primarily designed to enable us to express an opinion that the financial report is prepared, in all material respects, in accordance with the *Australian Accounting Standards (including the Australian Accounting Interpretations)* and the *Local Government Act 2008 and Local Government (Accounting) Regulations*.

The specific terms and scope of the external audit engagement are set out in our engagement letter in **Attachment A**.

2.1 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 ended 30 June 2018 is free of material misstatement. 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*.

Other opinions

We will also audit the special purpose financial report of the Council's various grant programs in accordance with each grant funding terms and conditions and the reporting requirements of each funding body, as required.

2.2 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.

Materiality is used to determine the nature and extent of our audit procedures. AASB108 *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 preliminary materiality is set at \$630,000, which is calculated based on extrapolated full year revenue. We will reassess our calculation once we receive the full year financial reports of the Council.

All identified audit differences in excess of \$31,000 will be brought to the attention of management for consideration and action as appropriate. We will communicate any 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.

2.3 The risk of fraud and error

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

Our responsibility as the external auditor is to consider the risk of fraud and the factors that are associated with it to ensure 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.

2.4 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 general IT controls); and
- 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 with a letter during the audit process, outlining our findings and our recommendations on where improvements can be made. Findings from the interim audit have been documented in Section 6.

2.5 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 and related resources) and that they can only perform specific 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 an effective ITGC, reliance cannot be placed on system based controls or the data they produce.

2.6 Approach to key financial statement close process

We have considered the IT general control environment for Dynamic NAV, which drives the financial statement close process, accounts receivable and accounts payable processes, during the interim audit, and have assessed it to be generally effective.

In the absence of an effective ITGC, reliance cannot be placed on Dynamic NAV's system based controls or the data it produces without significant alternate procedures being performed around verifying the integrity and accuracy of any reports generated from Dynamic NAV. 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 per Section 2.5, we expect to rely on the Council's IT general controls, and therefore we have, at the interim audit, and will test at the final audit, the IT application controls in the following key processes:

- Billings and Collection (Rates and user charges).



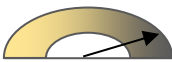
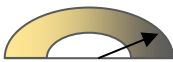
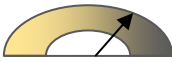
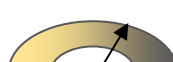


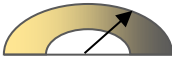
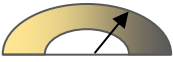
We support our IT general controls testing with manual controls testing in the following processes:

- Procurement/Purchases and payments;
- Payroll and payments; and
- 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 Entitlements; and
- Future Reinstatement and Restoration.

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

Process	IT reliance	Controls reliance
Financial statement close	 Low High	 Substantive Control
Revenue and receivables	 Low High	 Substantive Control
Purchases and payables	 Low High	 Substantive Control
Cash receipts and payments	 Low High	 Substantive Control
Payroll and payments	 Low High	 Substantive Control

2.7 Audit Approach

Activity	Planning / 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"> ▶ Obtain an understanding of 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 reviews 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) 	<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

3. Risk Assessment and Areas of Audit Focus

3.1 Our risk assessment of financial statement accounts

Our approach is to identify the significant accounts at a financial statements level and the critical accounting processes that impact these accounts. This necessitates the determination of significant accounts and related key processes. Our audit then addresses these areas.

The Council's significant accounts and the planned testing are as follows:

Financial Component	Analytical review	Planned control reliance	Substantive Testing Approach
Rates, Statutory charges and User charges	✓	✓	®
Grants, subsidies and contributions	✓	✓	✓
Investment Income and Other income	✓		✓
Employee costs	✓	✓	®
Materials, contracts and other expenses	✓	✓	®
Depreciation, amortisation and impairment	✓	✓	®
Other operating income and expenditure (such as loss on disposal, gain on revaluation, capital grants, resources received free of charge)	✓		✓
Cash and cash equivalents	✓	✓	✓
Trade and other receivables	✓		✓
Other financial assets	✓		✓
Infrastructure, Property Plant and Equipment (including assets held for sale, investment property and work in progress)	✓	✓	✓
Trade and other payables	✓		✓
Provisions	✓		✓
Equity	✓		✓

® As we plan to rely on the key controls, we will perform other primary substantive procedures such as substantive analytics.

3.2 A risk focused approach

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.

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

- ▶ The Council's strategies and objectives;
- ▶ The location in which the Council operates;
- ▶ Changes in the *Local Government Act and Regulations*; and
- ▶ The economic and market conditions in which the Council's operates.

This will involve discussions and input from senior management, drawing on our 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 and our planned responses below:

Areas of audit focus	Audit procedures to be perform
Ability to continue to operate as a going concern.	<p>The audit will ascertain if the Council will have sufficient funds to continue to operate and fund its programs for the next 12 months from the sign-off date of the 2018 audit report.</p> <p>We will review the Council's minutes of meetings and hold discussions with management to identify any events that may impact the viability of the Council.</p> <p>We will also review the Council's business plans, budgets and cash flow forecasts.</p> <p>We will obtain an understanding of why management believes the Council is a going concern.</p>
Revaluation of Infrastructure Assets/ Fixed Assets valuation and Ownership	<p>The Council revalues its physical non-current assets that have been valued at fair value when there has been a material change in fair value or at least every three years. The Council has appointed an external third party consultant for the infrastructure revaluation as at 30 June 2018. The Council's Infrastructure & Finance team is currently supplying the physical data to the Valuer. We will follow up and assess the integrity of the data and review the reconciliation between the data used for revaluation and the asset records in the Council's Fixed Asset Register.</p> <p>Fixed assets' useful lives and depreciation rates will be reviewed based on the revaluation report received from the external Valuer and we will review management's assessment of impairment.</p> <p>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 repair and maintenance accounts to ascertain that relevant transactions of a capital nature have not been omitted from being capitalised.</p>

Areas of audit focus	Audit procedures to be perform
<p>Application of Future Applicable Accounting Standards</p>	<p>The <i>Australian Accounting Standards Board (AASB)</i> issued the following new Standards which are deemed applicable to the Council:</p> <ul style="list-style-type: none"> • <i>AASB 15 Revenue from Contracts with Customers</i>; • <i>AASB 1058 Income for not-for-profit entities</i>; and • <i>AASB 16 Leases</i> <p><i>AASB 15 Revenue with Contracts with Customers</i> and <i>AASB 1058 Income for Not-for-Profit Entities</i> are effective for annual reporting periods beginning on or after 1 January 2019 and will be reported in the Council's financial statements for the first time in 2019/20, unless the Council chooses to early adopt these standards.</p> <p>Under these new standards, revenue from grants and donations will be recognised when any associated performance obligation to provide goods or services is satisfied, and not immediately upon receipt as currently occurs. Consequently, more liabilities are expected to be recognised in the balance sheet after adoption of this standard.</p> <p><i>AASB 16 Leases</i> is effective for annual reporting periods beginning on or after 1 January 2019 and will be reported in the Council's financial statements for the first time in 2019/20, unless the Council chooses to early adopt these standards.</p> <p>The new standard will supersede <i>AASB 117 Leases</i> and requires the majority of leases to be recognised on the balance sheet. The Council have various long-term leases in place. Accordingly, a right-of-use asset will now come onto the balance sheet together with a lease liability for all leases with a term of more than 12 months, unless the underlying assets are of low value. The Statement of Comprehensive Income will no longer report operating lease rental payments, instead a depreciation expense will be recognised relating to the right-to-use asset and interest expense relating to the lease liability.</p> <p>The new standards is likely to have a material impact on the Council's financial statements. It is important that management dedicate resources to ensure that the accounting and disclosures required by these new standard are met.</p>
<p>Compliance with Australian Accounting Standards (AAS), the Local Government Act (NT) and other applicable laws and regulations.</p>	<p>Changes to AAS 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.</p> <p>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.</p> <p>We will review Council's compliance with other relevant legislation including the Waste Management and Pollution Control Act of the Northern Territory Environmental Protection Authority in relation to its waste and recycling activities and the Work and Safety (National Uniform Legislation) Act in relation to work health and safety of its employees.</p> <p>We will also follow up on any compliance audits undertaken by regulators.</p>

Areas of audit focus	Audit procedures to be perform
Existence of Fraud	<p>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.</p> <p>We will continue to assess the impact of fraud on Council's operations and the effectiveness of controls in place to prevent and detect fraud.</p>

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 consideration	Audit procedures to be performed
Land Under Roads	<p>We will obtain and review the Council's accounting policy and related support surrounding the exclusion or inclusion of accounting for Land Under Roads within the financial statements at year-end.</p> <p>This will include a further review and examination on the basis for ownership and control of the asset, the basis for valuing the land, the proposed treatment for recognising land and related disclosures within the financial statements.</p>
Provisions	<p><i>Landfill restoration/ reinstatement provision</i></p> <p>Based on the Pollution Abatement Notice (PAN) received from the Environmental Protection Act, the Council has an obligation to remediate and restore land in Archer that was used for the disposal of waste by burial prior to August 2012.</p> <p>We will review the Council's assessment in relation to the liability accounted for landfill restoration and the compliance to the PAN issued.</p> <p><i>Other provisions</i></p> <p>For all other provisions, Merit Partners will review the Council's assessment and other supporting documents for the provisions recognised.</p>
Restricted reserves	<p>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.</p>
Street Lighting fees, maintenance and ownership	<p>We will review the Council's position in relation to street lighting issues and any impact on the Council's budget.</p>

4. A Trusted Client Service Team

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

The allocation of the key roles and responsibilities of the Merit Partners' audit engagement team is summarised below. Our team has been structured to ensure an effective audit is achieved to meet your requirements.

Name, commitment, role	
MunLi Chee	<p>Client Service Executive/Lead Audit Partner</p> <p>As the Client Service Executive/Lead Audit Partner, MunLi will have overall responsibility for the provision of audit services to the Council and will oversee the team's work. The Council members, RMAC members and the Executive Management team will have direct access to MunLi at any time to provide feedback. MunLi is familiar with the audit requirements of the Council. She will ensure a seamless and undistruptive service to the Council.</p>
Matthew Kennon	<p>Independent Review Partner</p> <p>As the Independent Review Partner, Matthew will conduct reviews and will provide specialist assistance in the audit of the Council as required by the audit team. Matthew may be consulted on any technical issues in relation to the audit and financial reporting by the Council.</p>
Candice Thomson	<p>Engagement Senior Manager</p> <p>As the Senior Manager, Candice will be the main contact person liaising with the Council's relevant personnel to ensure seamless conduct of the audit and to provide continued feedback on the progression of the audit through the various stages of completion. She will also have responsibility for the provision of audit services to the Council and will manage and be involved in the team's work.</p>
Mary Joseph	<p>Lead Senior Auditor</p> <p>As the Lead Senior Auditor, Mary will be responsible for overseeing the audit team, performing audit fieldwork and preparing the file for the Client Service Executive and Senior Manager review. She will also prepare the planning documentation as well as general and substantive audit procedures.</p>

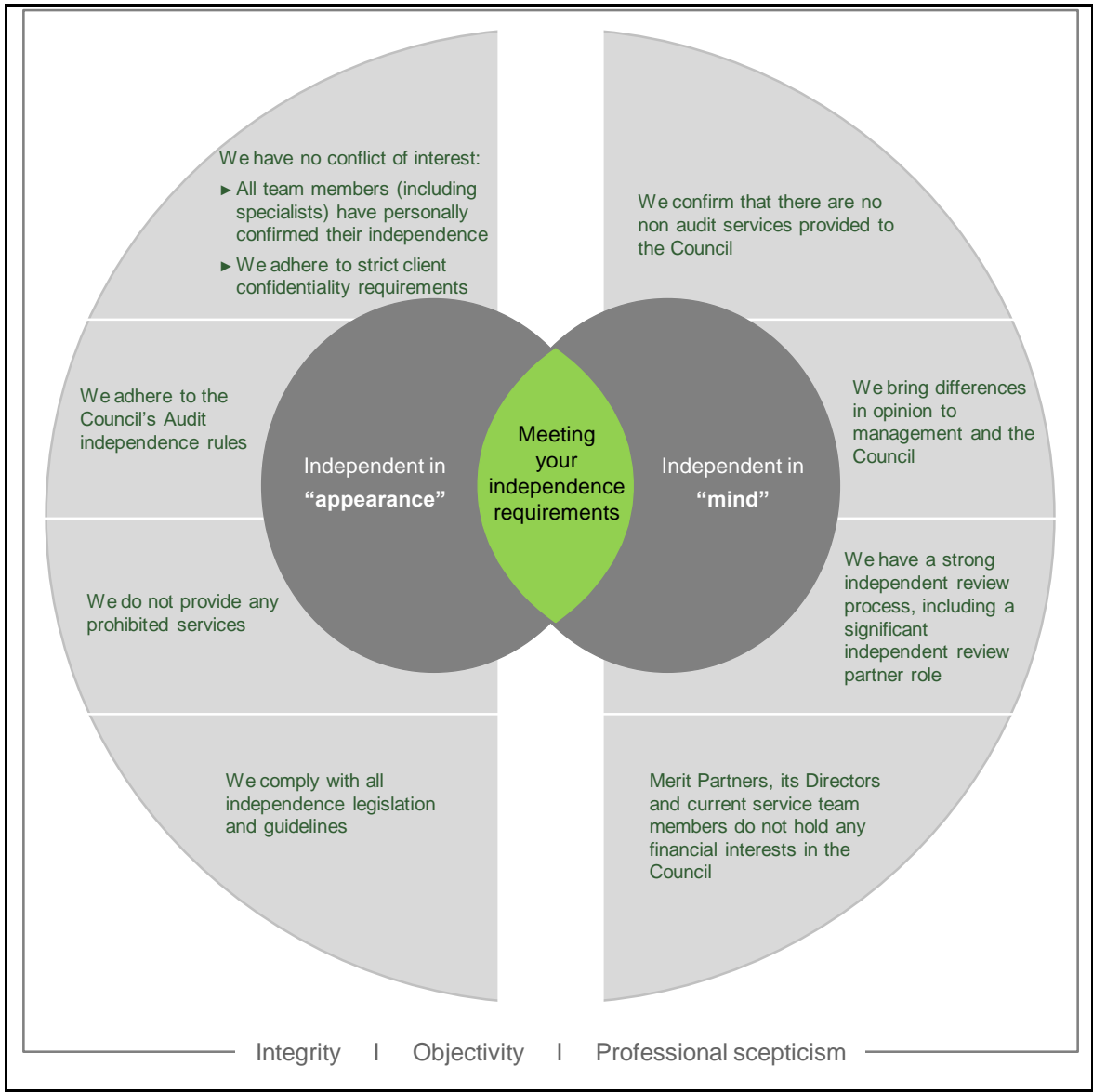
5. Independence

We understand the importance of independence. 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.



6. Interim Audit Results

We have recently undertaken our interim audit of the Council. The interim audit covered a number of procedures such as the control testing over payroll, payments, property, plant and equipment and the financial statement close processes; areas of audit focus, and risk assessment of material misstatements to the financial statements.

6.1 Inherent limitations and management's responsibility

It should be noted that the primary purpose of the interim audit procedures was to obtain sufficient and appropriate audit evidence to prepare for the requirement to form an opinion on the Council's financial statements. The audit was not, therefore, a comprehensive review of all systems and processes and was not designed to uncover all weaknesses, breaches and irregularities in those systems and processes. Inherent limitations in any management process and system of internal control may mean that errors or irregularities might occur and not be detected.

The audit did not constitute a complete examination of all relevant data and was not designed to uncover all processing errors and therefore may not have detected all breaches and irregularities that could have occurred.

The fact that the interim audit has not identified any significant matters does not mean that there are no other matters of which you should be aware of in meeting your responsibilities, nor does this report absolve you from taking appropriate action to meet your responsibilities.

6.2 Interim Findings

Discussions with management and staff have provided an understanding of the key business processes and controls. Overall, it appears that the Council has a satisfactory control environment and controls that will be able to be relied upon in the audit of the Council for the year ended 30 June 2018. The summary of matters reported below and detailed in Appendix C are limited to those deficiencies that we identified during the interim audit and that we concluded are of sufficient importance to merit being reported to you.

Key Issue	High Needs significant improvement	Moderate Needs substantial improvement	Low Needs some improvement
IT General Controls		✓	
Reconciliation of Ticketor to Property Wise			✓
Deactivation of User Access			✓
Employee Leave Processing			✓
Payment Processing			✓

6.3 Year end Planning

An objective of this interim audit was also to liaise with the Council to plan for the orderly preparation and audit of the year-end financial statements. Part of this process involved reviewing the timing and nature of audit procedures performed. The outcome of this process was that the audit fieldwork and procedures will commence on 20 August 2018 to facilitate the completion of the audit to meet the required deadline.

Appendix A Proposed Work Plan and Deliverables

The estimated timing for the provision of audit services is detailed below and has been based upon our initial estimates of the Council's likely reporting deadlines. Our proposed timetable is subject to change depending on the availability of Council personnel.

Procedures	Mar / Apr	May	June	Aug / Sept	Sept / Oct
Liaise with management to arrange timing of onsite visit and discuss issues	✓				
Develop audit plan		✓			
Internal team briefing		✓			
Site visit to undertake Interim audit (scheduled - 8 May 2018)		✓			
Site visit to undertake final audit (proposed – 20 August 2018)				✓	
Deliverables					
Engagement letter issued		✓			
Client Assistance Package (interim and final audit)	✓			✓	
Issue Audit Plan			✓		
Attend Audit Committee Meeting					✓
Issue Final Audit Opinion *					✓
Issue Grant Acquittal Audit Opinion *					✓
Issue Audit Closing Report *					✓

* Initially plan to sign off the report in October 2018, however, this will be dependent on the Risk Management and Audit Committee meeting for approval of the financial report.

Appendix B Communication with those charged with governance

There are certain communications that we are required by Australian Auditing Standards to provide to those charged with governance. These are detailed below for management, the Council and Risk Management and Audit Committee's reference:

Required communication	Reference
Terms of engagement	
<ul style="list-style-type: none"> ▶ Confirmation by the 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 findings from the audit	
<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 Council/Risk Management and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ 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

Required communication	Reference
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional ▶ Enquiry of the Risk Management and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that the Risk Management and Audit Committee may be aware of. 	<p>Audit Closing Report</p>
<p>Independence</p> <p>Confirmation that we have complied with the Local Government Act, and our professional judgment, including</p> <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. 	<p>Audit Plan Audit Closing Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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 	<p>Audit Closing Report</p>
<p>Significant deficiencies in internal controls identified during the audit</p>	<p>Audit Plan Audit Closing Report</p>

Appendix C Audit Observations

Overview of Risk Ranking System

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

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

Disclaimer

Issues identified are only those found within the course of the interim audit. Recommendations are intended solely for use by management. We disclaim any assumption of responsibility for any reliance on this report, to any person other than the Council or for any purpose other than that for which it was prepared.

City of Palmerston

Observation	Effect	Risk category	Recommendation	Management Response
<p><i>IT General Controls</i></p> <p>The Council does not have IT policies detailing appropriate levels of user access, system access, backup procedures, password policies and the IT Governance structure.</p> <p>During the interim audit, the following were observed</p> <ul style="list-style-type: none"> a) There are no password prompts inbuilt into applications such as NAV or Property Wise; b) All Assetic (Asset Module) users had common login credentials; and c) There is no formal policy of reviewing user access reports of applications such as NAV or Property Wise. 	<p>The Council is vulnerable to loss and corruption of data due to unauthorised access, compromising confidentiality, availability and integrity of Council information.</p>	<p>Moderate</p>	<p>The Council should have IT policies detailing appropriate levels of user access, system access, backup procedures, password policies and the IT Governance structure. There should be regular review of user access and password prompts should be inbuilt into applications. Assetic users should have individual login credentials.</p>	<p>Management acknowledges that there is room for improvement in the way that it handles IT security and IT governance. As such, Council is currently recruiting for a newly created position of "Manager Information and Digital Innovation" to help address this area. One of the key tasks for this position will be to design and implement key policies, procedures and controls to ensure that Council's IT security and IT governance is robust and potential risks are mitigated. As this position is new it will take time to understand the system, design and implement the necessary controls. It is envisioned that these controls will be in place and operational by the next interim audit in 2019.</p>
<p><i>Reconciliation of Ticketor to Property Wise</i></p> <p>Rangers generate daily car parking infringement notices through Ticketor, a hand-held device. Data from Ticketor is downloaded twice daily and uploaded into Property Wise (Council's rates and revenue module).</p> <p>There are currently no procedures performed to ensure that the data uploaded into Property Wise is complete and accurate and reconciles to information from Ticketor.</p> <p>Although total revenue generated from parking infringements is not significant, the Council has plans of implementing a similar platform for other infringements (such as animal infringements) in the future which will lead to increased revenue.</p>	<p>In the absence of a reconciliation and review process, there is an increased risk that revenue is incomplete.</p>	<p>Low</p>	<p>The Council consider implementing a formal reconciliation between data in Property Wise and Ticketor to ensure that information is complete and accurate.</p>	<p>Information is transferred from the handheld device to Ticketor twice daily. Officers then download a file from Ticketor and uploads this file into Propertywise. To minimise the risk of missing infringements, each infringement is given a number that is sequential in nature. Upon uploading the data into Propertywise, Council's officers manually check that the range of infringement numbers on Ticketor match the data that was uploaded into Propetywise. Officers will update the process so that there is a record that the check has taken place and it will be certified, this process will be implemented by 20 August 2018.</p>

Observation	Effect	Risk category	Recommendation	Management Response
<p><i>Deactivation of User Access</i></p> <p>There are no formal procedures for deactivating user access for terminated employees from all IT systems. The Employee Exit Checklist includes a task 'Delete computer access and remove all personal files and settings from their work station' to be completed. Human Resources has the ability to remove access from NAV, however there are no formal procedures for deactivating user access to other IT systems.</p>	<p>There is an increased risk of unauthorised access to systems by terminated employees.</p>	<p>Low</p>	<p>The Council should establish formal procedures for deactivating user access for terminated employees.</p>	<p>Management acknowledges that there is room for improvement in the way that it handles IT security and IT governance. As such, Council is currently recruiting for a newly created position of "Manager Information and Digital Innovation" to help address this area. One of the key tasks for this position will be to design and implement key policies, procedures and controls to ensure that Council's IT security and IT governance is robust and potential risks are mitigated. As this position is new it will take time to understand the system, design and implement the necessary controls. It is envisioned that these controls will be in place and operational by the next interim audit in 2019.</p>
<p><i>Employee Leave Processing</i></p> <p>In one instance from a sample of nine leave forms selected for testing, an employee's annual leave form had been authorised subsequent to the employee taking leave.</p>	<p>This represents a departure from the Council's HR guidelines, HR01.3 which details the employee's responsibility of ensuring that they are eligible for the leave applied and the Line Manager's responsibility to ensure Council's operations will not be compromised in doing so.</p>	<p>Low</p>	<p>Annual leave forms should be duly authorised prior to an employee taking leave with appropriate evidence of approval, including a signature and date, being maintained by the Council.</p>	<p>All positions with authority to approve leave will be reminded of their obligations and the requirements surrounding leave and approving leave in line with the appropriate policy. Any deviation from the policy for exceptional circumstances will be documented and a record for the reason of the deviation will be kept.</p>
<p><i>Payment Processing</i></p> <p>In one instance from a sample of 21 invoices selected for testing, the detailed invoice report had not been signed off by the reviewer, indicating the approval to release funds. Tick marks on the detailed invoice report provide evidence of checks, although formal sign off by the reviewer was absent. This appears to be an isolated incident.</p>	<p>Non adherence with internal controls increases the risk of fraud and error occurring without detection.</p>	<p>Low</p>	<p>Ensure evidence of a review, including signature and date by delegated officer is maintained on the detailed invoice report.</p>	<p>Management agrees with this recommendation. Although this is an isolated incident, officers have been reminded to ensure that all documentation is evidenced of authorisation by way of a signature before continuing their processes.</p>

Attachment A Engagement Letter



4 May 2018

Private and Confidential

The Council
City of Palmerston
PO Box 1
Palmerston, NT 0831

Dear Council Members

Audit Engagement Letter

1. This Engagement Letter, together with the attached General Terms and Conditions (collectively, this "Agreement"), confirms the terms and conditions upon which Merit Partners Pty Ltd ("we" or "MP") has been engaged to audit and report on the financial report of the City of Palmerston (the "Council") for the year ending 30 June 2018. The services described in this paragraph may hereafter be referred to as either the "Audit Services" or the "Services." References in this Agreement to the "Cover Letter" and the "Statement of Work" mean this letter ("the Engagement Letter").
2. Should conditions not now anticipated preclude us from completing our audit and issuing a report (the "Report") as contemplated by this Agreement, we will advise you and those charged with governance promptly and take such action as we deem appropriate.

This letter is effective for services performed for the annual financial reporting period ending 30 June 2018 and each subsequent reporting period unless otherwise agreed in writing.

Audit Responsibilities and Limitations

3. The objective of our audit is to express an opinion on whether the financial report presents fairly, in all material respects, the financial position, results of operations and cash flows of the City of Palmerston in accordance with Australian Accounting Standards and the Local Government Act and Regulations.
4. We will conduct the audit in accordance with Australian Auditing Standards ("ASAs") as promulgated by the Auditing and Assurance Standards Board (the "AUASB"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free of material misstatement, whether due to fraud or error.
5. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ASAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.
6. As part of an audit in accordance with ASAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also identify and assess the risks

of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

7. There are inherent limitations in the audit process, including, for example, the use of judgment and selective testing of data and the possibility that collusion, forgery, intentional omissions, misrepresentations, or the override of internal control, may preclude the detection of material error, fraud, or non-compliance with laws or regulations. Accordingly, there is some risk that a material misstatement of the financial report may remain undetected. Also, an audit is not designed to detect fraud or error that is immaterial to the financial report.
8. As part of our audit, we will also:
 - Consider, solely for the purpose of planning our audit and determining the nature, timing, and extent of our audit procedures, the Council's internal control over financial reporting. This consideration will not be sufficient to enable us to express an opinion on the effectiveness of internal control or to identify all significant deficiencies.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial report, including the disclosures and whether the financial report represents the underlying transactions in a manner that achieves fair presentation.
9. In accordance with Australian Auditing Standards, we will communicate certain matters related to the conduct and results of the audit to those charged with governance. Such matters include:
 - Our responsibility under Australian Auditing Standards for forming and expressing an opinion on the financial report that has been prepared by management with the oversight of those charged with governance and that such an audit does not relieve management and those charged with governance of their responsibilities.
 - An overview of the planned scope and timing of the audit including the significant risks that we have identified.
 - Significant findings from the audit. Significant findings from the audit include: (1) our views about the significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures; (2) significant difficulties, if any, encountered during the audit; (3) uncorrected misstatements, other than those we believe are trivial; (4) disagreements with management, if any, whether or not satisfactorily resolved; and (5) other matters, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding the oversight of the financial reporting process, including significant matters in connection with the Council's related parties.
 - Circumstances that affect the form and content of our Report, including those highlighted in the next section.
 - Written representations requested from management and significant matters, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

10. If we determine that there is evidence that fraud or possible non-compliance with laws and regulations may have occurred, we will bring such matters to the attention of the appropriate level of management. If we become aware of fraud involving management or fraud involving employees who have significant roles in internal control or others where the fraud results in a material misstatement of the financial report, we will report this matter directly to those charged with governance. We will communicate with those charged with governance matters involving non-compliance with laws and regulations that come to our attention unless they are clearly inconsequential.
11. We will communicate in writing significant deficiencies in internal control identified during the audit.
12. We also may communicate our observations as to the potential for economies in, or improved controls over, the Council's operations.

Circumstances that affect the form and content of our Report

13. The final form and content of our Report will reflect the results of our final audit findings and conclusions. We will communicate to management and those charged with governance all circumstances affecting the final form and content of our Report.

Management's Responsibilities and Representations

14. Our audit will be conducted on the basis that management and where appropriate, those charged with governance, acknowledge and understand that they have responsibility:
 - For preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the Local Government Act and Regulations.

In preparing the financial report, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.
 - For such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.
 - To provide us with: 1) access, on a timely basis, to all information of which management is aware that is relevant to the preparation of the financial statements and related disclosures, such as records, documentation and other matters; 2) additional information that we may request from management for the purpose of the audit; and 3) unrestricted access to persons within the Council from whom we determine it necessary to obtain audit evidence.
15. Management's failure to provide us with the information referred to above or access to persons within the Council may cause us to delay our Report, modify our procedures, or even terminate our engagement
16. Management is also responsible for adjusting the financial report to correct misstatements identified by us and for affirming to us in its representation letter that they believe the effects of unrecorded misstatements are immaterial, individually and in aggregate, to the financial report as a whole.
17. Management is responsible for communicating to us on a timely basis all instances of identified and suspected non-compliance with laws and regulations involving financial improprieties of which management or those charged with governance is aware (regardless of the source or form in which they may have been discovered or communicated to them and including, without limitation, instances identified by "whistle-blowers," employees, former

employees, analysts, regulators or others), and providing us full access to information and any internal investigations related to them. Such instances include manipulation of financial results by management or employees, misappropriation of assets by management or employees, intentional circumvention of internal controls, inappropriate influence on related party transactions by related parties, intentionally misleading MP, or other identified or suspected illegal acts or fraud that could result in a misstatement of the financial report or otherwise affect the financial reporting of the Council. If the Council limits the information otherwise available to us under this paragraph (based on the Council's claims of attorney/client privilege, work product doctrine, or otherwise), the Council will immediately inform us of the fact that certain information is being withheld from us. Any such withholding of information could be considered a restriction on the scope of the audit and may prevent us from opining on the Council's financial report; alter the form of report we may issue on such financial report; or otherwise affect our ability to continue as the Council's independent auditors. We will disclose any such withholding of information to those charged with governance.

18. We will make specific inquiries of management about the representations contained in the financial report. At the conclusion of the engagement, we will also obtain written representations from management about these matters, and that management: (1) has fulfilled its responsibility for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards and the Local Government Act and Regulations and that all transactions have been recorded and are reflected in the financial report; and (2) has provided us with all relevant information and access as contemplated in this Agreement. The responses to those inquiries, the written representations, and the results of our procedures comprise evidence on which we will rely in forming an opinion on the financial report.

Fees and Billings

19. Our budgeted fees for Audit Services to the Council will be \$28,000 (exclusive of GST). However, our actual fees may exceed this estimate based on changes to the business (e.g., nature of the business or change in business entities) or out-of-scope work. We will submit our invoices as outlined in our General Terms and Conditions and we expect payment in accordance with those terms. In accordance with Section 27 of the General Terms and Conditions, you have agreed to pay our Engagement Administration Charge. This will be levied at 3% of the fees paid. We will also on-charge any out-of-pocket disbursements, including bank confirmation fees, if any, and include them in our invoices.

Our deliverables for the Audit are outlined in the table below:

Audit Deliverable
<ul style="list-style-type: none"> • Audit of the general purpose financial statements of the Council in compliance with the <i>Local Government Act and Local Government (Accounting) Regulations</i>; • Audit of the Management Analysis and Discussion of the general purpose financial statements of the Council; • Audit of the expenditure of government grants that require a separate audit report, including a Roads to Recovery grant; • The provision of a management letter detailing any matters arising from the audit and recommendations for improvement; • Attendance at a risk management and audit committee meeting to present on the outcomes of the audit; and • The audit to be finalised and completed in accordance with applicable reporting deadlines.

20. Our estimated pricing and schedule of performance are based upon, among other things, our preliminary review of the Council’s records and the representations Council personnel have made to us and are dependent upon the Council’s personnel providing a reasonable level of assistance. Should our assumptions with respect to these matters be incorrect or should the condition of records, degree of cooperation, results of our audit procedures, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimates are based, we may adjust our fees and planned completion dates. Fees for any special audit-related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the fees referred to above and will be the subject of other written agreements.

For any additional work required we will provide an hourly rate on an assignment by assignment basis. Our indicative rates are as below:

Staff	Schedule of Rates (Exl GST)
Partner	\$330 - \$370
Manager/Senior Manager	\$200 - \$300
Senior Auditor	\$130 - \$190
Auditor	\$85 - \$130

Timing of Deliverables and Services to be Provided

21. The timetable for delivery of our services and reports to you is set out below and is based upon the assumption that we will receive appropriate co-operation from your staff and that the audit requirements schedule set out in the Client Assistance Package (to be provided) in accordance with a mutually agreed timetable.

Preliminary Year End Audit Timing	
Audit Stage / Deliverable	Audit Timing / Deliverable Deadline
Audit Planning & Interim audit (site visit)	4 May 2018
Final Audit (site visit)	* Sept 2018
Discussion with Management on our audit findings	Late Sept 2018
Audit Report issued (following Council approval of the financial statements) and Report to Council presented	October 2018

* Exact dates for timing of site visits to be confirmed with management.

22. While we anticipate that we shall be able to provide you with all of the foregoing deliverables by the stated times, we shall promptly advise you if unexpected circumstances arise that would prevent our doing so. The timetable established is dependent on receiving assistance from your organisation as we have discussed.

Other Matters

23. We confirm that, to the best of our knowledge and belief, MP is independent of the Council, and has met all the independence requirements of Australian professional ethical

pronouncements. MP has stringent policies and procedures in place to ensure independence requirements are addressed and monitored on a timely basis.

- 24. It is our understanding that the Council may publish a hard copy of the audited financial report and Report for members and electronically present these reports on its web site. The security and controls over information on the web site should be addressed by the Council to maintain the integrity of the data presented. The examination of the controls over the electronic presentation of audited financial information on the Council's web site is beyond the scope of the audit of the financial reports. Responsibility for the electronic presentation of the financial report on the Council's web site is that of the Council Management. If you require assistance in addressing the security and privacy controls over your web site, we would be pleased to provide our services as a separate engagement.

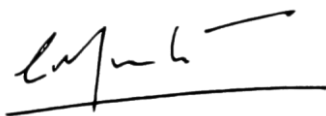
Workplace Health and Safety

- 25. We are committed to ensuring the health and safety of our employees whilst at work including when employees are attending client offices or sites in the course of their employment. To this end, we expect that you will:
 - a. ensure that your premises are safe and do not present risks to the health and safety of our employees who may attend your premises for the purpose of this engagement;
 - b. provide any of our employees who visit your premises or perform work at your premises with:
 - i. any site induction under your policies;
 - ii. any information about any hazards or risks to health and safety (including the presence of any hazardous materials) at the relevant premises; and
 - iii. details of any emergency plans or procedures (including evacuation plans) relating to the premises.

We appreciate the opportunity to be of assistance to the Council and look forward to working with you on this engagement. Our objective is to provide you with a high quality service. If you would like to discuss how our service could be improved or if you have specific concerns, please contact me in the first instance.

If this Agreement accurately reflects the terms and conditions on which the Council has agreed to engage us, please sign below on behalf of the Council and return it to Merit Partners, GPO Box 3470, Darwin NT 0801.

Yours faithfully



MunLi Chee
Director

Agreed and accepted by:
City of Palmerston

Signature (Organisational Representative)

Position

Name (please print)

Date

General Terms and Conditions

OUR RELATIONSHIP WITH YOU

1. We will perform the Services using reasonable skill and care.
2. We will provide the Services to you as an independent contractor and not as your employee, agent, partner or joint venturer. Neither you nor we have any right, power or authority to bind the other.
3. We will not assume any management responsibilities in connection with the Services. We will not be responsible for the use or implementation of the output of the Services.

YOUR RESPONSIBILITIES

4. You shall assign a qualified person to oversee the Services. You are responsible for all management decisions relating to the Services, the use or implementation of the output of the Services and for determining whether the Services are appropriate for your purposes.
5. You shall provide (or cause others to provide) to us, promptly, the information, resources and assistance (including access to records, systems, premises and people) that we reasonably require to perform the Services.
6. To the best of your knowledge, all information provided by you or on your behalf ("**Client Information**") will be accurate and complete in all material respects. The provision of Client Information to us will not infringe any copyright or other third-party rights.
7. We will rely on Client Information made available to us and, unless we expressly agree otherwise, will have no responsibility to evaluate or verify it.
8. You shall be responsible for your personnel's compliance with your obligations under this Agreement.

OUR REPORTS

9. Any information, advice, recommendations or other content of any reports, presentations or other communications we provide under this Agreement ("**Reports**"), other than Client Information, are for your internal use only (consistent with the purpose of the particular Services) including your board of directors and your audit committee.
10. You may not disclose a Report (or any portion or summary of a Report) externally, or refer to us or to any of our affiliates in connection with the Services except:
 - (a) to your lawyers (subject to these disclosure restrictions), who may review it only in connection with advice relating to the Services,
 - (b) to the extent, and for the purposes, required by law (and you will promptly notify us of such legal requirement to the extent you are permitted to do so)
 - (c) to other persons (including your affiliates) with our prior written consent, who have executed an access letter who may use it only as we have specified in our consent, or

(d) to the extent it contains Tax Advice, as set forth in Section 11.

If you are permitted to disclose a Report (or a portion thereof), you shall not alter, edit or modify it from the form we provided.

An "affiliate" of an entity (for the purpose of this Agreement) shall mean an entity or individual that controls, is controlled by, or is under common control with, the first entity, and "control" means the ability to direct the policies or operations of an entity, whether by contract, ownership of equity interests, or otherwise.

11. You may disclose to anyone a Report (or any portion thereof) solely to the extent that it relates to tax matters, including tax advice, tax opinions, tax returns, or the tax treatment or tax structure of any transaction to which the Services relate ("**Tax Advice**"). With the exception of tax authorities, you shall inform those to whom you disclose Tax Advice that they may not rely on it for any purpose without our prior written consent. Where tax law services are provided, disclosure of our advice to a third party may result in a waiver of legal professional privilege.
12. You may incorporate into documents that you intend to use our summaries, calculations or tables based on Client Information contained in a Report, but not our recommendations, conclusions or findings. You must assume sole responsibility for the contents of those documents and you must not externally refer to us in connection with them. Where tax law services are provided, disclosure of such internal documents may result in a waiver of legal professional privilege.
13. You may not rely on any draft Report. We shall not be required to update any final Report for circumstances of which we become aware, or events occurring, after its delivery.

LIMITATIONS

14. You (and any others for whom Services are provided) may not recover from us, in contract or tort, under statute or otherwise, any amount with respect to any loss of profit, data or goodwill, or any indirect or consequential costs, loss or damage in connection with claims arising out of this Agreement or otherwise relating to the Services, whether or not the likelihood of such loss or damage was contemplated.
15. (a) If the Competition and Consumer Act 2010 (Cth), the Corporations Act 2001 (Cth) or any other legislative provision prohibits or otherwise precludes the restriction, modification or exclusion of any statutory condition, warranty, guarantee, right, remedy or other benefit, Sections 14, 15 and 16 do not restrict, modify or exclude it. Unless prohibited by law, no term, condition or warranty is implied except as expressly provided in this Agreement.
 - (b) Our liability is limited by a scheme approved under professional standards legislation applicable to the Services provided ("**Scheme**"), except where we are a financial services licensee. A copy of the Scheme can be obtained from us upon request.

(c) If our liability is not limited by a Scheme, You (and any others for whom Services are provided) may not recover from us, in contract or tort (including negligence), under statute or otherwise, aggregate damages in excess of the monetary ceiling applicable to the fees paid for the Services under the Scheme in connection with claims arising out of this Agreement or otherwise relating to the Services.

(d) If a term is implied into this Agreement by law, which cannot be excluded, you agree that in the event that we breach the term we may, in our absolute discretion and to the extent it is allowed by law, choose either to re-supply the Services or pay you the cost of having the Services re-supplied.

16. If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage (including interest and costs) to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage which is agreed between us or ascribed to us by a court or tribunal of competent jurisdiction based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.
17. The limitations in Section 15 will not apply to losses or damages caused by our fraud or to the extent prohibited by applicable law or professional regulations.
18. You may not make a claim or bring proceedings relating to the Services or otherwise under this Agreement against any of our affiliates or our or its subcontractors, members, shareholders, directors, officers, partners, principals, or employees ("MP Persons"). You shall make any claim or bring proceedings only against us. The limitations in Sections 14 through 16 and this Section 18 are intended to benefit our affiliates and all MP Persons, who shall be entitled to enforce them.

INDEMNITY

19. To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, our affiliates and the MP Persons against all claims by third parties (including your affiliates and lawyers) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs and any goods and services tax payable by us on amounts paid by you under this indemnity) incurred by us or our affiliates or the MP Persons which is related to, arises out of, or is in any way associated with the third party's use of or reliance on any Report (including Tax Advice) disclosed to it by or through you or at your request. You shall have no obligation hereunder to the extent that we have specifically authorized, in writing, the third party's reliance on the Report.

INTELLECTUAL PROPERTY RIGHTS

20. We may use data, software, designs, utilities, tools, models, systems and other methodologies and know-how ("**Materials**") that we own in performing the Services. Notwithstanding the delivery of any Reports, we retain all intellectual property rights in the Materials (including any improvements or knowledge developed while performing the Services), and ownership of our working papers prepared in connection with the Services (but not Client Information reflected in them).
21. Upon payment for the Services, you may use any Materials included in the Reports, as well as the Reports themselves as permitted by this Agreement.

CONFIDENTIALITY

22. Except as otherwise permitted by this Agreement, neither of us may disclose to third parties the contents of this Agreement or any information (other than Tax Advice) provided by or on behalf of the other that ought reasonably to be treated as confidential and/or proprietary. Either of us may, however, disclose such information to the extent that it:
- (a) is or becomes public other than through a breach of this Agreement,
 - (b) is subsequently received by the recipient from a third party who, to the recipient's knowledge, owes no obligation of confidentiality to the disclosing party with respect to that information.
 - (c) was known to the recipient at the time of disclosure or is thereafter created independently,
 - (d) is disclosed as necessary to enforce the recipient's rights under this Agreement, or
 - (e) must be disclosed under applicable law, legal process or professional regulations.
23. Either of us may use electronic media to correspond or transmit information and such use will not in itself constitute a breach of any confidentiality obligations under this Agreement.
24. Unless prohibited by applicable law, we may disclose Client Information to our affiliates, MP Persons and third parties providing services on our behalf who may collect, use, transfer, store or otherwise process it (collectively "**Process**") in the various jurisdictions in which they operate either for purposes related to the provision of the Services, and/or to comply with regulatory requirements, to check conflicts, for quality, risk management, financial accounting purposes and/or the provision of other administrative support services (collectively "**Process Purposes**"). We shall be responsible to you for maintaining the confidentiality of Client Information.

DATA PROTECTION

- 25. For the Process Purposes referred to in Section 24 above, we and our affiliates, MP Persons and third parties providing services on our behalf may Process Client Information that can be linked to specific individuals ("Personal Data") in various jurisdictions in which we and our affiliates, MP Persons and third parties providing services on our behalf operate. We will Process the Personal Data in accordance with applicable law and professional regulations including (without limitation) the Privacy Act (1988) (Cth). We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements. A copy of our Privacy Policy statement may be obtained on request.
- 26. You warrant that you have the authority to provide the Personal Data to us in connection with the performance of the Services and that the Personal Data provided to us has been processed in accordance with applicable law.

FEES AND EXPENSES GENERALLY

- 27. You shall pay our professional fees and specific expenses in connection with the Services as detailed in the applicable Statement of Work. You shall pay our engagement administration charge of 3% of our fees which covers our costs, including courier charges, photocopying, postage, telephone calls, facsimiles and stationery. You shall also reimburse us for other reasonable expenses incurred in performing the Services.

Our fees are exclusive of taxes or similar charges, as well as customs, duties or tariffs imposed in respect of the Services, all of which you shall pay (other than taxes imposed on our income generally). In relation to GST specifically, if our supply to you is taxable you will pay additional consideration calculated as the prevailing GST rate multiplied by our GST exclusive fees.

You shall pay our invoices within 14 days of the billing date. We shall issue our invoices to you or as you may direct. If you direct us to issue an invoice to another party, you shall remain responsible for payment until our invoice is paid in full. Accounts may be paid by electronic funds transfer, internet banking or cheque. Credit card payments will be subject to a surcharge of 2.2%.

- 28. We may charge additional professional fees if events beyond our control (including your acts or omissions) affect our ability to perform the Services as originally planned or if you ask us to perform additional tasks.
- 29. If we are required by applicable law, legal process or government action to produce information or personnel as witnesses with respect to the Services or this Agreement, you shall reimburse us for any professional time and expenses (including reasonable external and internal legal costs) incurred to respond to the request, unless we are a party to the proceeding or the subject of the investigation.

FORCE MAJEURE

- 30. Neither you nor we shall be liable for breach of this Agreement (other than payment obligations) caused by circumstances beyond your or our reasonable control.

NON-SOLICITATION OF PERSONNEL

- 31. During the term of this Agreement, and for six (6) months after it ends, each party agrees not to knowingly solicit for employment, or to independently contract the services of, any partner or staff member or sub-contractor of the other party who is involved with performing this engagement. This clause does not apply to a general employment vacancy advertisement issued by a party.

TERM AND TERMINATION

- 32. This Agreement applies to all Services performed at any time (including before the date of this Agreement).
- 33. This Agreement shall terminate on the completion of the Services. Either of us may terminate it, or any particular Services, earlier upon 14 days' prior written notice to the other. In addition, we may terminate this Agreement, or any particular Services, immediately upon written notice to you if we reasonably determine that we can no longer provide the Services in accordance with applicable law or professional obligations.
- 34. You shall pay us for all work-in-progress, Services already performed, and expenses incurred by us up to and including the effective date of the termination of this Agreement. Payment is due within 14 days following receipt of our invoice for these amounts.
- 35. Our respective confidentiality obligations under this Agreement shall continue for a period of three years following the termination of this Agreement. The other provisions of this Agreement that give either of us rights or obligations beyond its termination shall continue indefinitely following the termination of this Agreement.

GOVERNING LAW AND DISPUTE RESOLUTION

- 36. This Agreement, and any non-contractual obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of the state or territory of the Merit Partners office shown on the Cover Letter. We both agree and irrevocably submit to the exclusive jurisdiction of the Courts of that state or territory.
- 37. If there is a dispute relating to the Services or this Agreement, the parties must submit the dispute to mediation before having recourse to any other dispute resolution process. Written notice of the dispute will be given for it to be submitted to mediation before a mediator chosen by the parties or, where the parties cannot agree, by the Australian Commercial Disputes Centre ("ACDC"). The parties will use their best endeavours to settle the dispute promptly. The mediation will be conducted in accordance with the ACDC Mediation Guidelines to the extent that they do not conflict with the provisions of this Section. If the dispute is not resolved within 60 days after notice of the dispute, the mediation will terminate unless the parties otherwise agree.

MISCELLANEOUS

- 38. This Agreement constitutes the entire agreement between us as to the Services and the other matters it covers, and supersedes all prior agreements, understandings and representations with respect thereto, including any confidentiality agreements previously delivered.

39. Both of us may execute this Agreement (and modifications to it) by electronic means. Both of us must agree in writing to modify this Agreement.
40. You represent that the person signing this Agreement on your behalf is expressly authorised to execute it and to bind you and any of your affiliates or others for whom Services are performed to its terms.
41. You agree that we and our affiliates may, subject to professional obligations, act for other clients, including your competitors.
42. Neither of us may assign any of our rights, obligations for claims under this Agreement.
43. If any provision of this Agreement (in whole or part) is held to be illegal, invalid or otherwise unenforceable, the other provisions shall remain in full force and effect.
43. If there is any inconsistency between provisions in different parts of this Agreement, those parts shall have precedence as follows (unless expressly agreed otherwise): (a) the Cover Letter, (b) the applicable Statement of Work and any annexes thereto, (c) these General Terms and Conditions, and (d) other annexes to this Agreement.
44. We may use your name publically to identify you as a client, but we may refer to you in connection with the Services only if, in doing so we do not disclose any of your confidential information, or it is a matter of public knowledge that we are providing them (or have provided them).