

**City of Palmerston**

**Audit Closing Report to the Council**

Year ended 30 June 2019





21 October 2019

***Private and confidential***

The Council  
City of Palmerston  
PO Box 1  
Palmerston NT 0831

Dear Council Members

We have substantially completed our audit of City of Palmerston ("Council") for the year ended 30 June 2019.

We confirm that we are prepared to issue an unqualified audit opinion on the financial statements in the form that appears in **Appendix C**, provided there are no further significant changes to the Draft Financial Statements and the outstanding matters in **Appendix B** are satisfactorily completed.

This report is intended solely for the use of the Council and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your team for the assistance provided to us during the audit.

I look forward to the opportunity of discussing with you any aspects of this report or any others issues arising from our work.

Yours faithfully

MunLi Chee  
Partner

cc Mr Iain Summers, Chairman, Risk Management and Audit Committee



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## Section 1 - Executive Summary

This audit closing report is prepared to communicate matters that are directly relevant to the financial statements of the Council for the year ended 30 June 2019 and summarises the status of our audit and the results of our audit work.

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### Status of the audit

We have substantially completed our audit of the financial report of City of Palmerston ("Council") for the year ended 30 June 2019. Subject to satisfactory completion of the following outstanding items we will issue an unqualified audit opinion in the form which appears in **Appendix B**:

- Receipt of the signed Chief Executive Officer's Statement;
- Receipt of the signed management representation letter;
- Review of the final version of the financial report; and
- Completion of subsequent events review.

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### Scope and Materiality

In our Audit Plan Report dated 12 June 2019, we communicated that our audit procedures would be performed using a materiality of \$840,000. We have reassessed this based on the actual results at year end and have increased this amount to \$880,000. The threshold for reporting audit differences which impact the income statement has also increased from \$42,000 to \$44,000. The basis of our re-assessment considered the impact of revenue recognised in May and June 2019.

There were no significant changes in our audit strategy and testing as a result of the amendment in our Materiality thresholds.

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### Audit differences

There were no significant audit differences noted during the audit.

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<b>Areas of audit focus</b>	<p>We identified a number of key areas of focus for our audit of the financial statements. This report sets out our perspective in relation to these areas, including our views on areas where there is potential risk and exposure. Our consideration of these matters and other matters identified during the period is summarised within the “Significant Areas of Audit Focus” <b>Section 4</b> of this report.</p> <p>We request that you review these and other matters set out in this report to ensure:</p> <ul style="list-style-type: none"> <li>• There are no residual further considerations or matters that could impact these issues;</li> <li>• You concur with the conclusion of the issues; and</li> <li>• There are no further significant issues you are aware of to be considered before the financial report is finalised.</li> </ul> <p>If there are any matters that should be brought to our attention prior to the signing of our audit report, please do not hesitate to contact us.</p> <p>There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the RMAC or Council.</p>
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<b>Control observations</b>	<p>We can report there are no matters ranked as “High” risk or any matters that [subject to the completion of the outstanding matters in <b>Appendix B</b>] could materially impact the completion of our audit procedures or the compilation of the 30 June 2019 financial statements.</p> <p>There are no matters to report to management in relation to significant deficiencies in internal controls.</p> <p>Our assessment of the Council's control environment is detailed in <b>Section 6</b>.</p>
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<b>Focused on Council's future</b>	<p>We have highlighted the key accounting and regulatory updates which will have an impact on Council in future periods.</p> <p>These are detailed in <b>Section 7</b>.</p>
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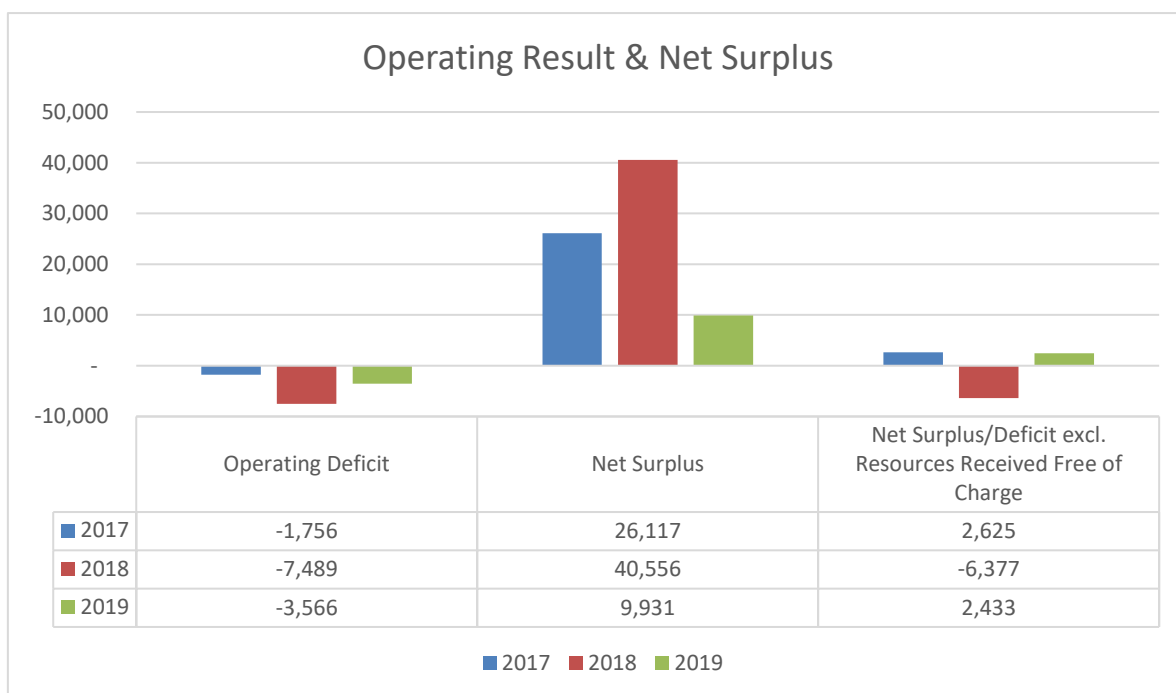
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In conclusion, the audit of the financial statements of City of Palmerston for the year ended 30 June 2019 has been successfully completed by the mutually agreed due date with the issuing of our unqualified/unmodified audit report.

## Section 2 – Understanding the Financial Performance and Financial Position

### Financial Performance

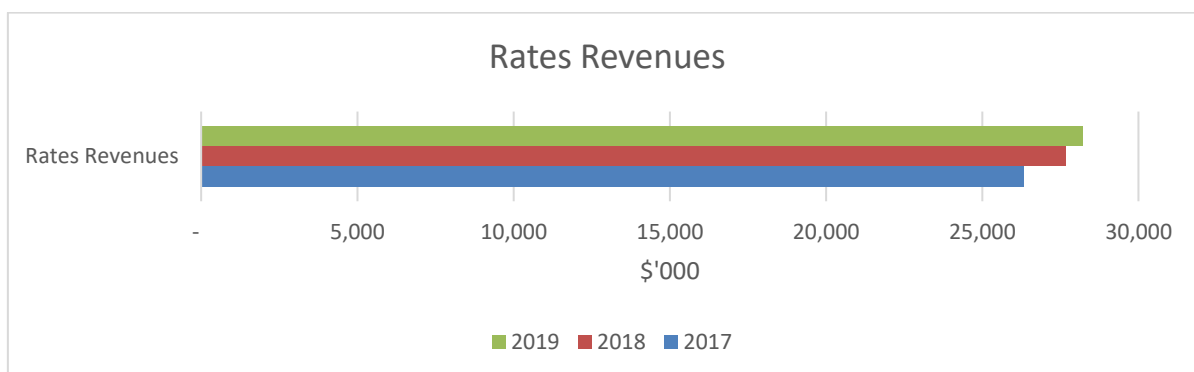
The operating deficit for the year ended 30 June 2019 was \$3.6 million (30 June 2018: an operating deficit of \$7.5 million). This improvement from 2018 was driven by a significant decrease in materials, contracts and other expenses of \$3.8 million. Below is the summary of the Council’s operating performance:



The net surplus for the year was \$9.9 million (2018: \$40.5 million) after considering asset disposal and fair value adjustments, amounts received specifically for new or upgraded assets and for physical resources received free of charge. During the year, the Council received \$7.5 million in physical resources received free of charge. These largely related to roads, bridges & footpaths and storm water drainage that were built as part of the development of new suburbs in the Palmerston area during the year.

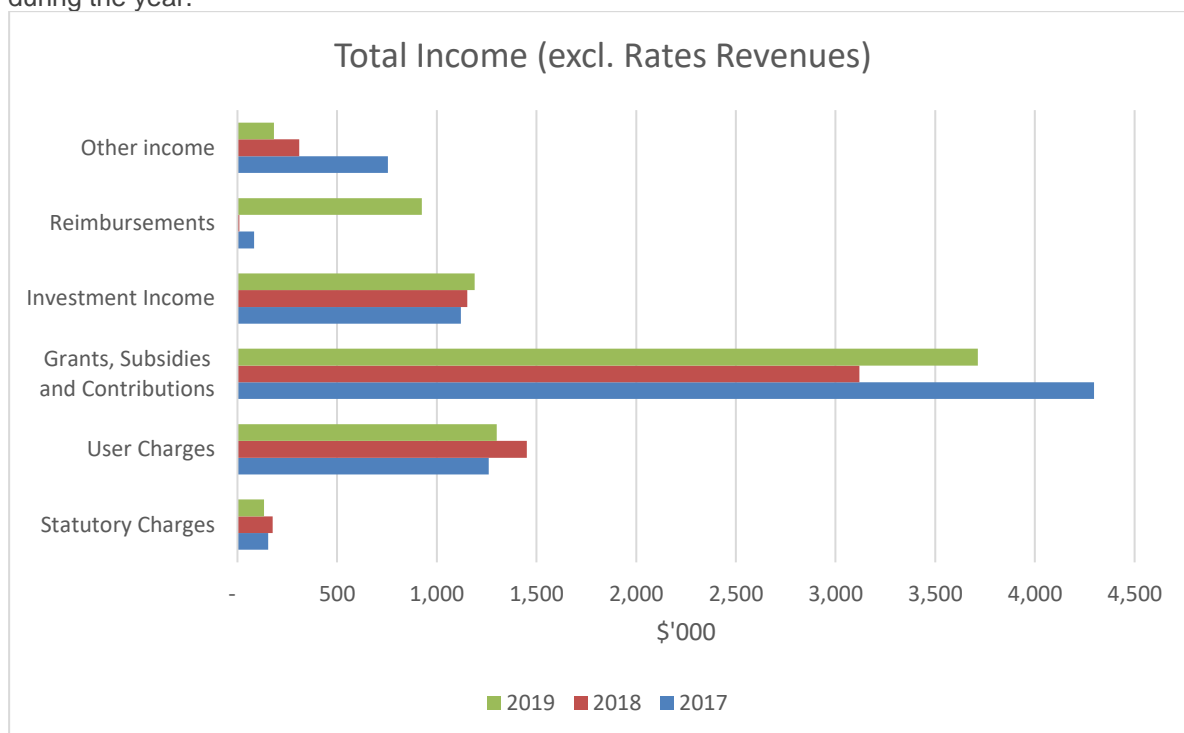
### Key components of Income

Total income for the year has increased slightly from the prior year by \$1.7 million.



### Rates Revenues

These are statutory rates and charges collected from the community. New rates and charges are issued through Rates Declaration at the beginning of each year. Upward movement is due to an increase in the number of properties and an increase to rates and user fees on rateable properties during the year.



### Statutory Charges and User Charges

Statutory charges includes parking fines, animal registration and infringements and other licence, fees and fines. These charges have declined slightly from the previous year.

User charges includes income collected from parking fees, development charges, dog registration, rent/hire of council equipment, licences/permits and other charges. Overall, the income generated from these charges has decreased by \$0.15 million. The main reason for the decrease is the introduction of free parking in the CBD over the Christmas period in 2018/19. Income from parking fees generated \$0.25 million during the year.

**Grants, Subsidies and Contributions**

This is funding received from Northern Territory Government, Commonwealth Government as well as Developer Contributions. There was a significant decline in income during 2018 partly attributed to a large one-off infrastructure (ISLRP) project funding received in 2017 of \$2.2 million received for the Boulevard, Archer and Hillson Street project. The \$0.6 million increase this year is largely due to the \$0.4m increase in developer funds received in lieu of construction.

**Investment & Other Income**

Investment income is interest earned from the Council's short-term investments, interest on overdue rates and rental income from investment property. The Council recognised a similar level of investment income during the year compared to the prior years.

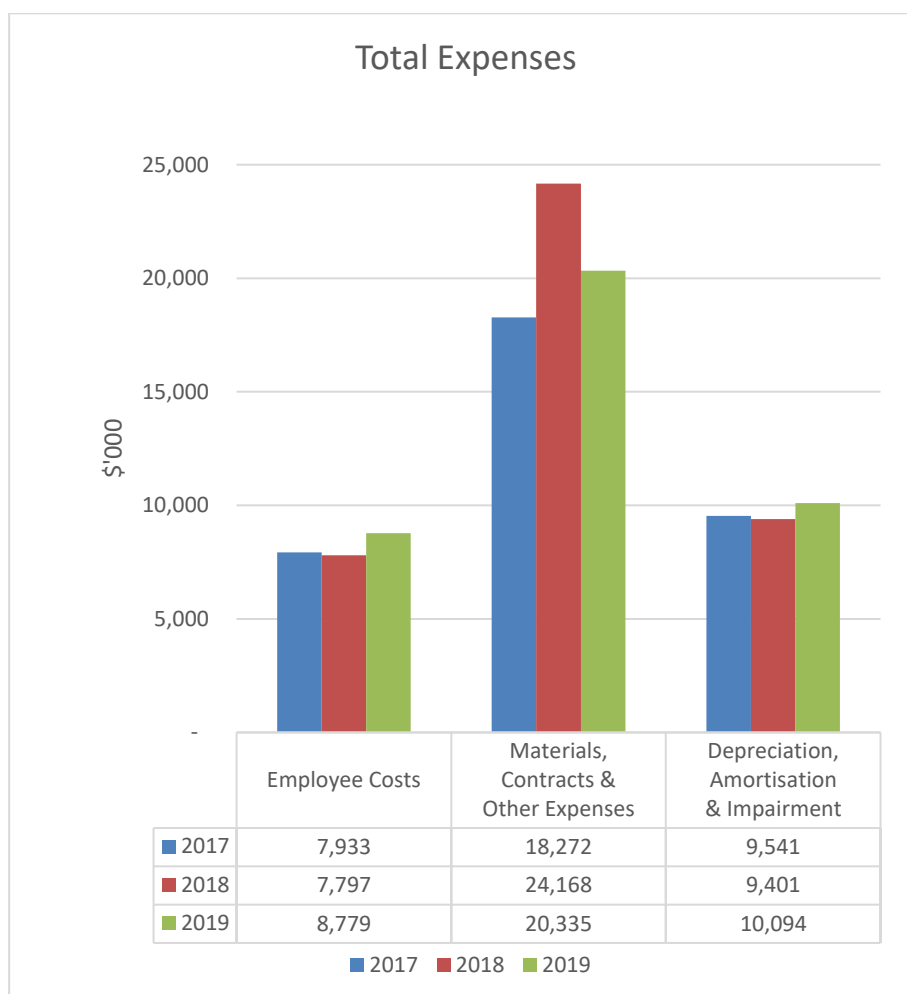
**Reimbursement & Other Income**

Other income relates to insurance recoupments, waste remediation interest (unwinding) and sundry items. Reimbursement income increased significantly as they received a \$0.9 million reimbursement for the clean-up costs they incurred in 2018 as a result of Cyclone Marcus.



## Key components of Expenditure

Total expenditure has decreased by \$2.2 million from the prior year.



### Employee Costs

Employee costs increased by \$1 million in 2019. This was the result of an increase in employee numbers at 30 June by 11% compared to the same time in 2018.

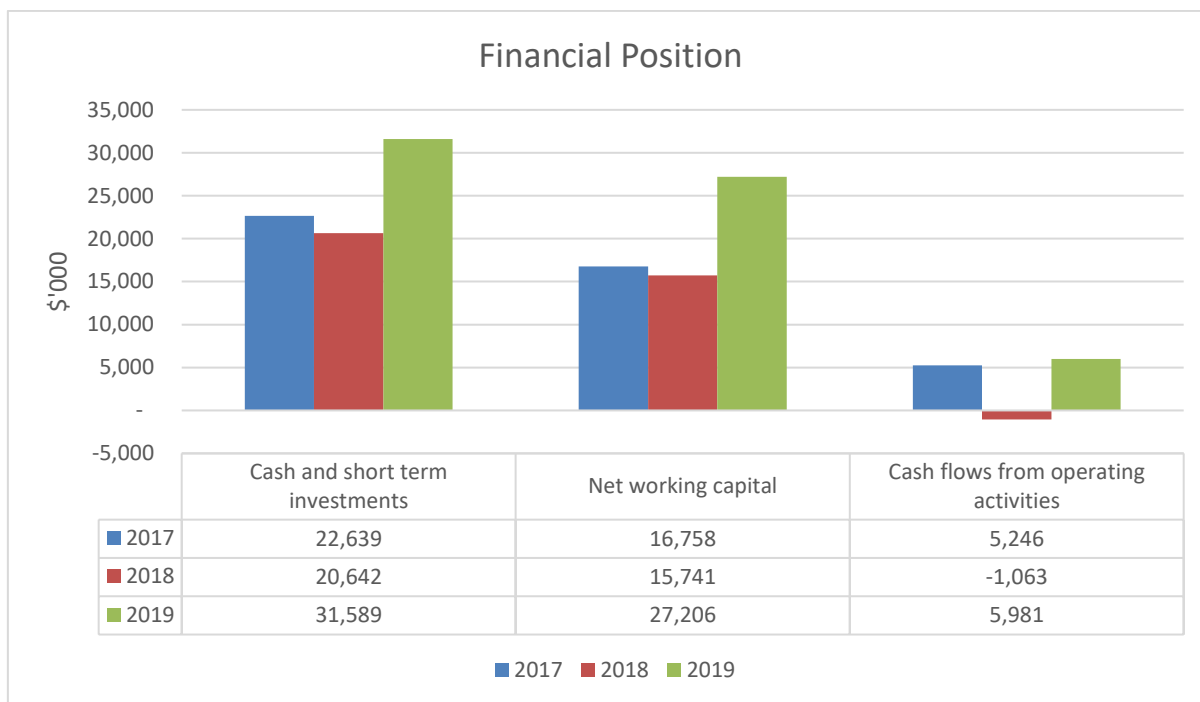
### Materials, Contracts and Other Expenses

Expenses have decreased by nearly \$4 million during the year. This is partly due to contractor costs incurred mainly for the clean up after Cyclone Marcus in 2018 which incurred in excess of \$2 million.

### Depreciation & Amortisation

The depreciation expense for the year is consistent with the prior year. This is in line with the movement of the Infrastructure, Plant and Equipment.

### Key components of the Council's financial position



#### Cash & Short-term Investments

The Council maintained a high level of cash and short/medium-term deposits due to the accumulation of surplus over the years. Of the total cash amount, about \$16.7 million (2018: \$13.7 million) is maintained as short/medium-term deposits at various Australian financial institutions.

#### Net Working Capital

Net working capital is an indication of whether the Council has sufficient funds to pay off its current obligations (including employee provisions). The Council's positive net working capital of \$27.2 million (\$15.7 million) indicates that the Council is able to settle its current liabilities.

#### Cash Flows from Operating Activities

The Council generated positive cash flows from operating activities of \$6 million (2018: negative operating cash flow \$1.1 million) as a result of increased income and reduced expenditure from 2018.

## Section 3 - Financial Statement Areas Requiring Management Judgement


The Council's use of significant estimates and judgements in preparing the financial statements are indicated in the table below. Information about areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are as follows:

FY2019 '000sCaption	FY2019 '000s	FY2018 '000s	Explanation
Allowance for Doubtful Debts	\$126	\$130	<p>The allowance for doubtful debts relates to an impairment provided for infringements and fines. As per Council's policy 4.4.9 Provision for Doubtful Debts, a provision is made if a person who receives an infringement chooses to have the matter dealt with by the Courts. The Council provided 100% impairment on infringement debtors falling under this category.</p> <p>A small amount was raised for general debtors which were greater than 90 days at 30 June 2019.</p> <p>Based on the audit procedures undertaken, the allowance for doubtful debts provided by the Council appears reasonable.</p>
Movement in Fair value of Infrastructure, Property, Plant & Equipment	\$570	\$122,680	<p>During 2018, the Council undertook a full review of all its fixed assets. The fair value of the Council's fixed assets was determined and approved by the Council on the basis of an independent valuation carried out by Asset Val Pty Ltd, who are certified practicing valuers.</p> <p>In 2019 the Council commenced a rotational valuation plan where only Land, Buildings &amp; Other Structures and Stormwater Drainage were revalued.</p> <p>Valuation reports were reviewed to ascertain assets were valued appropriately and the methods and assumptions used by the valuers appeared sound and robust and in compliance with the Australian Accounting Standards.</p> <p>Most of the infrastructure, property, plant and equipment are valued at depreciated current replacement costs.</p> <p>Refer also to <b>Section 4 - Areas of Audit Focus</b> for a detailed assessment.</p>
Employee Provisions (both current and non-current portion of provision)	\$1,768	\$1,432	<p>The liability for employee provisions expected to be settled more than 12 months from the reporting date is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date.</p> <p>The current portion of employee benefits is carried at its nominal value.</p> <p>We have agreed the nominal value of leave provisions to the Council's accounting records. For Long Service Leave provision, we verified the assumptions used based on underlying supporting documents. The assumptions used, such as inflation rate, discount rates and CPI, factor in the years of service of each employee and were tested for reasonableness.</p>
Provision for Future Reinstatement Restoration	\$1,817	\$3,348	<p>Estimated restoration and post closure 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. The estimated future costs are based on a closure plan, which is based on current environmental requirements.</p>

FY2019 '000sCaption	FY2019 '000s	FY2018 '000s	Explanation
			<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>At 30 June 2019, the Council provided \$0.5 million (of a total \$2 million from 2018) for Stage 3 Archer Landfill Rehabilitation which is due to occur during the next financial year. The Council also provided \$1.3 million for ongoing post closure monitoring costs until 2048.</p> <p>The provision to be settled more than 12 months from the reporting date is carried at net present value as required under AASB 137 Provisions, Contingent Liabilities and Contingent Assets.</p> <p>It is recommended that the Council continues to assess the provision annually for any significant uncertainty in the estimation of the future closure date.</p>
Contingent Consideration	Nil	Nil	<p>We have made enquires of management regarding:</p> <ul style="list-style-type: none"> <li>▶ Knowledge of any contingent liabilities and assets affecting the Council; or other events or conditions where contingent assets or liabilities have a material effect on the financial report</li> <li>▶ Knowledge of any litigations or allegations affecting the Council's financial information.</li> </ul> <p>We also obtained confirmation from the Council's legal counsel and reviewed the minutes of meetings.</p> <p>Nothing has come to our attention that warrants a contingent consideration.</p>

## Section 4 - Areas of Audit Focus

As presented in our Audit Plan dated 12 June 2019, we identified areas of audit focus for the 2018-19 financial statements audit. We have completed our planned audit procedures and outline below the results of our audit:

Areas of audit focus	Audit procedures performed	Our Perspective
<p><b>Going concern</b></p>  <p><u>Key area:</u> Business Viability Impairment</p> <p><u>Relevant accounting and auditing standards:</u></p> <ul style="list-style-type: none"> <li>• AASB 136 <i>Impairment of Assets</i></li> <li>• ASA 570 <i>Going Concern</i></li> </ul>	<p>We reviewed the Council's financial statements including revenue streams and noted the following:</p> <ol style="list-style-type: none"> <li>the Council has generated a net surplus of \$9.9 million. The Council has a favourable working capital position of \$27.2 million.</li> <li>the core revenue of the Council are from rates, user charges and fees and statutory rates, which comprises about 80% of the Council's total revenue;</li> <li>the Council continues to receive funds from the Commonwealth and NT Governments. These programs are generally on an annual arrangement basis and comprise about 10% of the Council's total revenue.</li> </ol> <p>We also reviewed the Council's minutes of meetings to account for any events that could impact the viability of the Council's operations in the future.</p>	<p>Based on the audit procedures performed, we concluded that the Council has a viable operation and will continue to operate as a going concern for the next 12 months.</p> <p>In addition, we discussed with management and reviewed legal expenses and relevant meeting minutes and noted that the Council does not have borrowings or pending lawsuits that may negatively impact the Council.</p> <p>We also reviewed on a test basis compliance with funding bodies' agreements.</p> <p>At 30 June 2019, Council has high liquid assets that will be able to support its operations in the next 12 months.</p> <p><b>2020 Planning Focus</b></p> <p>Merit Partners will continue to review the contractual and other revenue arrangements of the Council in terms of its rates and user charges and government funding.</p>

## Areas of audit focus

## Audit procedures performed

## Our Perspective

### Infrastructure, Property, Plant and Equipment Valuation



#### Key area:

- Judgement over valuation basis and assumptions
- Accounting treatment for revaluation
- Appropriateness of depreciation and remaining useful lives of assets
- Appropriate classification of maintenance /capital expenditures

#### Relevant accounting and auditing standards:

- AASB 136 *Impairment of Assets*
- AASB 116 *Property, Plant & Equipment*

The valuation of infrastructure assets is judgemental. There are a number of key assumptions that the valuer is required to make based on their experience in this field, and each of these judgements has the potential to materially impact the resulting valuation. The key amongst these judgements is:

- Remaining useful life assessments;
- Assumed replacement cost; and
- Optimisation decisions.

In 2019 the Council commenced a rotational valuation plan where only Land, Buildings & Other Structures and Stormwater Drainage were revalued. (A full revaluation of all infrastructure, property, plant and equipment was undertaken in July 2018).

Valuation reports were reviewed to ascertain assets were valued appropriately and the methods and assumptions used by the valuers appeared sound and robust and in compliance with the Australian Accounting Standards.

We have performed substantive audit procedures at year end by:

- reviewing the valuation reports from an independent valuation specialist;
- reviewing the Council's going concern assessment; and
- assessing the probability of recovery of non-financial assets.

We have also reviewed the Council's minutes of meetings to consider whether there are any other events that could impact the recoverability of its assets in the future.

We obtained and reviewed the Council's Fixed Assets Register and agreed the balances to the general ledger. Samples of additions and disposals during the year were checked and agreed to related supplier invoices and approved authority to dispose forms.

Management believed that the value of the infrastructure, property, plant and equipment at 30 June 2019 are recorded at fair values.

Most of the infrastructure, property, plant and equipment are valued at depreciated current replacement costs.

The 2019 revaluation of the fixed assets resulted in a net asset increase of about \$0.5 million (2013: \$122.6 million). The significant component of each asset is depreciated over its estimated useful life.

Repairs and maintenance expenses were reviewed to ascertain that relevant transactions of a capital nature have not been omitted from being capitalised.


Fixed asset useful lives and depreciation rates, depreciation and amortisation accounts have been tested to ascertain their reasonableness.



Recoverability of the infrastructure, property, plant and equipment was also discussed with management. No issues noted.

We are satisfied that infrastructure, property, plant and equipment have been appropriately recorded and disclosed in the financial statements.

#### 2020 Planning Focus

Merit Partners will continue to monitor and review the recoverability of the Council's non-financial assets.

Areas of audit focus	Audit procedures performed	Our Perspective
<p><b>Application of Future Applicable Accounting Standards</b></p>  <p><u>Key area:</u></p> <ul style="list-style-type: none"> <li>Revenue Recognition</li> <li>Leases</li> </ul> <p><u>Relevant accounting and auditing standards:</u></p> <ul style="list-style-type: none"> <li>AASB 15 <i>Revenue from Contracts with Customers</i></li> <li>AASB 1058 <i>Income for not-for-profit entities</i></li> <li>AASB 16 <i>Leases</i></li> </ul>	<p>The Council have determined not to early adopt the new standards:</p> <ul style="list-style-type: none"> <li>AASB 15 Revenue from Contracts with Customers</li> <li>AASB 1058 Income for not-for-profit entities</li> <li>AASB 16 Leases</li> </ul> <p>Given the adoption of these new standards will likely have a material impact on the financial statements, we have reviewed the disclosures in the financial statements to ensure there is adequate disclosure, which includes the financial impact of adopting these standards in future years.</p>	<p>No issues noted.</p> <p>The Council has disclosed that the financial impact on the 2019 financial statements will be a reduction in grant income (and therefore net surplus and net assets) of \$9 million.</p> <p><b><u>Unexpended Grant Income</u></b></p> <p>Similar to other non-for-profit organisations who received grant monies from the Commonwealth and Northern Territory governments, the Council is not exempted from having grant monies received but not yet expended at any given point in time. The unexpended grant income balance increased from \$1.8 million in 2018 to \$9.1 million at 30 June 2019. Of the amount, \$8.2 million are from monies collected and received during the year and the remaining \$0.9 million are from grant monies received in 2017-18 and previous years.</p> <p>Whilst the prognosis could be construed as a timing issue of rendering services, the Council cannot ignore the expectations that such services should have been rendered during the period where grant monies are received.</p> <p>It is also our understanding that the Council continues to focus on planning and commissioning of the various programs and proactively seeking to complete the agreed tasks under the grant conditions as much as possible. Accordingly, we encourage management to continue to be prudent in commissioning the various programs and to ensure that the funding bodies are aware, at all times, of the current state of these grant monies.</p> <p><b>2020 Planning Focus</b></p> <p>Merit Partners will continue to monitor and review the contractual arrangements that the Council has in respect of its government funding and leases and ensure they are correctly treated in future years when the Council adopts the new Australian Accounting Standards.</p>

Areas of audit focus	Audit procedures performed	Our Perspective
<p><b>Compliance with Australian Accounting Standards (AAS), the Local Government Act (NT) and other applicable laws and regulations</b></p>  <p><u>Key area:</u></p> <ul style="list-style-type: none"> <li>• Business operations</li> <li>• Statutory obligations</li> </ul> <p><u>Relevant accounting and auditing standards:</u></p> <ul style="list-style-type: none"> <li>• AASB 250 <i>Consideration of Laws and Regulations in an Audit of Financial Report</i></li> </ul>	<p>We considered the requirements of applicable legislation and government policy by the review of relevant Acts, Regulations and agreements. We have also performed sufficient and relevant audit procedures over key financial requirements imposed on the Council.</p>	<p>No issues noted.</p> <p><b>2020 Planning Focus</b></p> <p>Merit Partners will continue to monitor and review the Council’s compliance with the Australian Accounting Standards and the Local Government Act (NT).</p>
<p><b>Existence of Fraud</b></p>  <p><u>Key area:</u></p> <ul style="list-style-type: none"> <li>• Business operations</li> <li>• Reputation</li> </ul> <p><u>Relevant accounting and auditing standards:</u></p> <p>AASB 240 <i>The Auditor’s Responsibilities relating to Fraud in an Audit of Financial Report</i></p>	<p>We assessed the impact of fraud on the Council’s operations and the effectiveness of controls in place to prevent and detect fraud.</p> <p>We also understand that the Council has insurance in place to protect itself in the event of a claim.</p>	<p>We discussed the existence of fraud with the Director of Finance and the Finance Manager, and reviewed the relevant meeting minutes and the Council’s fraud protection plan. No instances of fraud were noted.</p> <p>In view that occurrences of fraud/theft may result in significant losses to the Council if controls in place are not effective and heighten the risk of possible damages to the Council’s reputation, the Council should continue to review its fraud control/protection policy and undertake fraud control reviews especially in times when there is an economic downturn.</p>



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

Other areas of audit focus	Audit procedures performed
Provision for future reinstatement/restoration	<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>At 30 June 2019, the Council provided \$0.5 million (of a total \$2 million from 2018) for Stage 3 Archer Landfill Rehabilitation which is due to occur during the next financial year. The Council also provided \$1.3 million for ongoing post closure monitoring costs until 2048.</p> <p>Although estimated future costs are based on a closure plan, such plans may change based on current environmental requirements.</p> <p>The Council should continue to assess the provision annually for any significant uncertainty in the estimation of the closure plan.</p>
Restricted Reserves	<p>We obtained and reviewed the Council's support over restricted cash and reserve accounts. We tested the accuracy of the information within the accounts to relevant support and approval for use of the Restricted Reserves and undertook a review of budgets and funding agreements to ascertain that balances are complete at reporting date.</p> <p>At 30 June 2019, appropriate cash balance is restricted to finance the Council's reserves.</p>
Land Under Roads	<p>The Council's management is of the opinion that it is not possible to attribute value sufficiently reliable to qualify for recognition, and has not recorded land under roads. The Council's election is based on AASB 1051 <i>Land Under Roads</i> paragraphs 8 and 9 which states that:</p> <p><i>"8 - An entity may elect to recognise (including continue to recognise or to recognise for the first time), subject to satisfaction of the asset recognition criteria, or not to recognise (including continue not to recognise or to derecognise) as an asset, land under roads acquired before the end of the first reporting period ending on or after 31 December 2007.</i></p> <p><i>9 - An entity shall make a final election under paragraph 8 effective as at the first day of the next reporting period following the end of the first reporting period ending on or after 31 December 2007. Any adjustments that arise from a final election that is made effective as at that first day shall be made against the opening balance of accumulated surplus (deficiency) of that next reporting period."</i></p> <p>It is noted in the Council's financial report that the land under roads is not recognised as it is not possible to reliably attribute its fair value.</p> <p>It is however recommended the Council considers in the future if there are practical methods of ascertaining the fair values of land under roads, especially new roads acquired in future years.</p>

We have also outlined below our observations arising from the audit that we believe are significant and relevant to you, including our view in relation to the accounting practices of Council.

Elements of accounting practices	Observations
Accounting policies	<p>No accounting standards had been adopted earlier than the applicable dates. New standards and interpretations issued applicable to the current reporting period did not have a financial impact on the Council. The impacts of future accounting standards has been assessed and where material, have been disclosed in the financial statements at 30 June 2019.</p> <p>The Council needs to undertake the consideration of the impacts of future accounting standards annually.</p>
Accounting estimates	<p>The estimates and associated assumptions made by management in the preparation of the financial statements appear reasonable. Below are key accounting estimate changes adopted by the Council during the year.</p> <ol style="list-style-type: none"> <li>a. As disclosed above in Section 4 of this report, the Council undertook a partial review of its fixed assets in 2019. The 2019 revaluation of the fixed assets resulted in a net asset increase of about \$0.5 million. Each significant component of each asset is depreciated over its estimated useful life.</li> <li>b. As stated in Section 3 of this report, the Council has provided 100% impairment on infringements to persons choosing to have the matter dealt with by the Courts. Management recognised that 100% provision is appropriate given the likelihood of recoverability.</li> </ol>
Financial statements disclosures	<p>Financial Statement disclosures appear reasonable.</p> <p>Adjustments or changes to the draft financial statement disclosures proposed by us have been made by management.</p>
Segregation of duties	<p>There is no segregation of duties' issues noted from our audit. Review and approval by delegated authorities appear to be in place.</p>
Other matters	<p>No other matters of significance have been identified during our audit in relation to the financial statement preparation process.</p>

## Section 5 - Audit Differences

### 5.1 Summary of adjusted differences

The following table contains a list of audit adjustments we identified that have subsequently been adjusted by management:

Account 30 June 2019	Net Assets Debit / (Credit)	Income Statement Debit / (Credit)
Nil	Nil	Nil
Net increase (decrease) in current period	Nil	Nil

### 5.2 Summary of unadjusted differences

The following differences have been identified during the course of our audit and have not been considered material by management. We are bringing these to your attention to enable you to form your own view on these items:

Account 30 June 2019	Net Assets Debit / (Credit) \$'000	Income Statement Debit / (Credit) \$'000
Long Service Leave		(172)
Short Term Provisions Employee Benefits	61	
Long Term Provisions Employee Benefits	111	
To remove terminated employees from calculation and take into account a probability factor of employees becoming eligible to take long service leave		
GST Receivable	28	-
Creditor – General	(306)	
Short Term Provisions Other	278	
To bring in Archer Landfill Rehab invoice into 30 June 2019 year end (invoice dated 12 June 2019)		
Net increase (decrease) in current period	172	172

## Section 6 - Control Environment

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control.

Our audit procedures do not address all internal control and accounting procedures and are based on selective tests of accounting records and supporting data and have not been designed for the purposes of making detailed recommendations. As a result, our procedures would not necessarily disclose all weaknesses in the Council's internal control environment, and you should not assume that there are no additional matters that you should be aware of in meeting your responsibilities.

### 6.1 *Inherent Limitations and Management Responsibility*

It should be noted that the primary purpose of the 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 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 *Significant deficiencies in internal controls*

The accounting and control procedures examined during the audit were found to be generally satisfactory. Discussions with management and staff have provided an understanding of the key business processes and controls.

The summary of matters reported below and detailed in **Appendix D** are limited to those deficiencies that we identified during the year-end 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 Policy			✓
Bank Reconciliation			✓
Long Service Leave			✓
Archer Landfill Provision			✓

### **6.3 Investigator's Recommendations**

During 2017-18, a special investigation was undertaken by an independent consultant into the conduct of suspended members and affairs and financial position of the City of Palmerston subsequent to the Council being put into administration in June 2017.

The investigation found that due diligence and good governance had not been carried out by the Council previously. As a result of the investigation, a number of recommendations arose around areas such as Tendering and Contracts, Conduct of Alderman, Council Meetings, Council Committees, Council Policies, Staff Recruitment, Financial Review and Loan Applications.

A number of recommendations have already been adopted, and the progress of the outstanding recommendations will be monitored by the Risk Management and Audit Committee.

## Section 7 - Focused on the Council's Future

### Our value proposition to the Council is simple:

- ▶ A commitment to providing the Council with the right team of people with the right blend of commercial and technical experience.
- ▶ A commitment to deliver a tailored service and practical solutions relevant to your industry sector.
- ▶ A commitment to 'keep it simple' through dynamic, relevant and proactive continuous communication.
- ▶ A commitment to developing and maintaining collaborative relationships to appropriately assess your expectations and business needs.
- ▶ A commitment to effective and responsive technical consultation.
- ▶ A commitment, through frequent communication with executive management, to provide fair and transparent fees based on: a thorough understanding of audit scope, continuous measuring and monitoring of the audit process and understanding client service requirements.

In addition, we have highlighted the key business and regulatory developments which may impact the audit of the Council next year.

	Area	Explanation	Impact on Council
Business	Changes in the Council's Operations	There are no expected significant changes in the Council's business or operations in the foreseeable future.	Nil.
Accounting	AASB 15 <i>Revenue from Contracts with Customers</i> & AASB 1058 <i>Income for Not-for-Profit Entities</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.</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>	Adoption of this new standard is expected to have a financial impact on the Council's grant income recognition.

	Area	Explanation	Impact on Council
Accounting	AASB 16 Leases	<p>AASB 16 is effective for annual periods beginning on or after 1 January 2019.</p> <p>A lease is defined as a contract, or part of a contract, that conveys the right to use an asset for a period of time in exchange for consideration. The definition is based on the premise of control, where a lease is identified when a customer has the right to (1) obtain substantially all of the economic benefits from the use of the identified asset; and (2) direct the use of the identified asset.</p> <p>AASB 16 provides a single model for accounting for leases by lessees. Leases other than low value and short-term leases must be recognised on the balance sheet of lessees. The lessee will recognise an asset, reflecting its right to use the underlying asset, and a liability, in respect of its obligation to make lease payments.</p> <p>Expenses in respect of leases will include amortisation of the right-of-use asset and interest expense in respect of the lease liability. The standard provides for two approaches to transition:</p> <p>(a) Modified retrospective - including two alternatives in measuring the associated asset, or</p> <p>(b) Full retrospective.</p> <p>Lessors will continue to account for leases as either operating or finance leases, consistent with current practice. For operating leases, the underlying asset remains on the lessor's balance sheet. For finance leases, the underlying asset is de-recognised and a lease receivable is recognised.</p>	Adoption of this new standard is expected to have a financial impact on the leases for terms longer than 12 months. The new accounting treatment required by the new standard will need to be applied.
Regulatory	Changes in the Council's regulators, mandates or requirements	There are no expected changes in the Council's regulators mandates or requirements in the foreseeable future.	The Council needs to continue to monitor their regulators' requirements to ensure that they address the relevant requirements.

## Appendix A – Other Required Communications

Auditing Standards require us to report to you certain matters that are not otherwise detailed in this report.

Matter	How matter was addressed
Material uncertainties and going concern	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Council's ability to continue as a going concern for 12 months from the date of our report.
Disagreements with management	During our audit we received full cooperation from management and had no unresolved disagreements over the application of accounting principles, the scope of our audit or disclosures to be included in the financial statements.
Compliance with laws and regulations	We have not identified any instances of material non-compliance with laws and regulations.
Fraud and illegal acts	<p>We have made enquires of management regarding:</p> <ul style="list-style-type: none"> <li>• Knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control; or others where fraud could have a material effect on the financial report</li> <li>• Knowledge of any allegations of fraud, or suspected fraud, affecting Council's financial information.</li> </ul> <p>We are not aware of any fraud or illegal acts during our audit.</p>
Expected modifications to audit report	We anticipate to issue an unqualified audit report on the financial statements for the year ended 30 June 2019 subject to the satisfactory resolution of the outstanding matters detailed in this report.
Independence	<p>We confirm that we have complied with the independence rules under APES 110 Code of Ethics for Professional Accountants, and in our professional judgment, the engagement team and the Firm are independent.</p> <p>We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that the Council considers the facts of which you are aware of and come to a view. Should you have any specific matters that you wish to discuss, please contact us.</p>



## Appendix B – Outstanding Matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Final financial report	Review of the final financial report and associated support for disclosures	Merit Partners and Council management
Key Management Personnel declarations	Receipt of completed Key Management Personnel declarations	Council Management
Management representation letter	Receipt of signed management representation letter	Council Management
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	Merit Partners and Council management
CEO Statement	Receipt of the signed CEO Statement	Council's CEO

## Appendix C – Draft Audit Report

### Independent audit report to the Chief Executive Officer of City of Palmerston

#### **Opinion**

We have audited the accompanying general purpose financial report of City of Palmerston (“the Council”), which comprises the statement of financial position as at 30 June 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Chief Executive Officer’s Statement.

In our opinion, the financial report of the City of Palmerston is in accordance with the *Northern Territory Local Government Act*, including:

- (a) giving a true and fair view of the financial position of the City of Palmerston as at 30 June 2019 and of the Council’s performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Local Government (Accounting) Regulations*.

#### **Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Report section of our report.

We are independent of the Council in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants* (the ‘Code’) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### **The Responsibility of the Chief Executive Officer and Those Charged with Governance for the Financial Report**

The Chief Executive Officer of the Council is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Northern Territory Local Government Act* and for such internal control as the Chief Executive Officer determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Chief Executive Officer is responsible for assessing the Council’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Chief Executive Officer either intends to liquidate the Council or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council’s financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Financial Report***

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

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

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

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

Merit Partners

MunLi Chee  
Director

DARWIN  
XX October 2019

## Appendix D – Audit Observations

### Overview of Risk Ranking System

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

<b>High</b> Needs significant improvement	<b>Immediate corrective action is required.</b> 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.
<b>Moderate</b> Needs substantial improvement	<b>Corrective action is required,</b> generally within 6 months. A control weakness, which can undermine the system of internal control and/or operational efficiency and should therefore be addressed.
<b>Low</b> Needs some improvement	<b>Corrective action is required, generally within 6 to 12 months.</b> 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 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><b>IT Policy</b></p> <p>It was noted that the Council does not have a robust IT policy detailing user access, system access, back up procedures, password policies or the IT governance structure.</p>	<p>There is a risk that the Councils IT controls may be inadequate.</p>	<p>LOW</p>	<p>We recommend that the Council drafts and implements a robust IT policy.</p> <p>User access should be reviewed to ensure there is adequate segregation of duties and to remove employees who have resigned.</p>	
<p><b>Bank Reconciliations</b></p> <p>During our testing we noted that March 2019 reconciliation for the NAB trading account was not approved until 14 May 2019.</p>	<p>There is an increased risk of fraud or error arising and not being picked up in a timely manner.</p>	<p>LOW</p>	<p>We recommend that all bank reconciliations are prepared and approved on a timely basis, ideally within two weeks.</p>	
<p><b>Long Service Leave</b></p> <p>It was noted that the Council uses a probability factor of 100% for all employees, regardless of the number of years of service they have accrued.</p> <p>We also noted that the long service leave calculation at 30 June 2019 included six terminated employees.</p>	<p>The long service leave provision is estimated to be overstated by \$170k at 30 June 2019.</p>	<p>LOW</p>	<p>We recommend that the long service leave calculation is reviewed to ensure all employees included are current. The Council should also consider estimating the long service leave provision based on the probability that the employees entitlement will become payable.</p>	

# City of Palmerston

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Observation	Effect	Risk category	Recommendation	Management Response
<p><b>Archer Landfill Provision</b></p> <p>It was noted that an invoice dated 12 June 2019 in relation to the Archer Landfill was not recognised at the year end. (Processed on 1 August 2019)</p>	<p>At 30 June 2019 the Archer Landfill provision is overstated by \$278k (and creditors understated) however there is no impact on the net assets or the statement of comprehensive income.</p>	<p><b>LOW</b></p>	<p>We recommend that all invoices are recognised in the period to which they relate. Invoices received after the year end should be accrued for wherever possible.</p>	