



AGENDA

ECONOMIC DEVELOPMENT, BUSINESS AND CORPORATE COMMITTEE

10 SEPTEMBER 2018

MEMBERSHIP: Councillors J Diffey, V Etheridge, D Grant, D Gumley, A Jones, S Lawrence, G Mohr, K Parker, J Ryan and B Shields.

The meeting is scheduled to commence at .

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| EDBC18/45 REPORT OF THE ECONOMIC DEVELOPMENT BUSINESS AND CORPORATE COMMITTEE - MEETING 13 AUGUST 2018 (ID18/1346) | 2 |
| The Committee had before it the report of the Economic Development, Business and Corporate Committee meeting held 13 August 2018. | |
| EDBC18/46 BOOTHENBA ROAD UPGRADE - APPLICATION TO THE GROWING LOCAL ECONOMIES FUND (ID18/1394) | 6 |
| The Committee had before it the report dated 30 August 2018 from the Economic Project and Grants Officer regarding Boothenna Road Upgrade - Application to the Growing Local Economies Fund. | |
| EDBC18/47 2017/2018 BUDGET HIGHLIGHTS REPORT (ID18/1347) | 12 |
| The Committee had before it the report dated 28 August 2018 from the Chief Financial Officer regarding 2017/2018 Budget Highlights Report. | |
| EDBC18/48 REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE - MEETING 5 SEPTEMBER 2018 (ID18/1405) | 17 |
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**DUBBO REGIONAL
COUNCIL**

Report of the Economic Development Business and Corporate Committee - meeting 13 August 2018

AUTHOR: Administration Officer - Governance
REPORT DATE: 28 August 2018

The Committee had before it the report of the Economic Development, Business and Corporate Committee meeting held 13 August 2018.

RECOMMENDATION

That the report of the Economic Development, Business and Corporate Committee meeting held on 13 August 2018, be noted.



**REPORT
ECONOMIC DEVELOPMENT, BUSINESS AND
CORPORATE COMMITTEE
13 AUGUST 2018**

PRESENT: Councillors J Diffey, V Etheridge, D Grant, A Jones, S Lawrence, G Mohr, K Parker and B Shields.

ALSO IN ATTENDANCE:

The Chief Executive Officer, the Executive Manager Governance and Internal Control, the Governance Team Leader, the Community Support Officer, the Director Corporate Services, the Director Economic Development and Business, the Communications Coordinator, the Director Infrastructure and Operations (S Carter), the Director Planning and Environment, the Manager Environmental Control, the Trainee Planner, the Director Community and Recreation, the Social Justice Coordinator and the Youth Development Officer.

Councillor G Mohr assumed chairmanship of the meeting.

The proceedings of the meeting commenced at 5.55pm.

**EDBC18/40 REPORT OF THE ECONOMIC DEVELOPMENT BUSINESS AND CORPORATE
COMMITTEE - MEETING 9 JULY 2018 (ID18/1234)**

The Committee had before it the report of the Economic Development, Business and Corporate Committee meeting held 9 July 2018.

Moved by Councillor B Shields and seconded by Councillor K Parker

MOTION

That the report of the Economic Development, Business and Corporate Committee meeting held on 9 July 2018, be noted.

CARRIED

**EDBC18/41 LGNSW ANNUAL CONFERENCE PROPOSED MOTION REGARDING AMENDING
REQUIREMENTS FOR ELECTORAL WARDS (ID18/1261)**

The Committee had before it the report dated 31 July 2018 from the Executive Manager Governance and Internal Control regarding LGNSW Annual Conference Proposed Motion Regarding Amending Requirements for Electoral Wards.

Moved by Councillor B Shields and seconded by Councillor D Grant

MOTION

That Council request that the following motion be lodged for inclusion on the LGNSW 2018 Annual Conference agenda:

That LGNSW make representations to the Minister of Local Government to consider the feasibility and appropriateness of an amendment to the Local Government Act 1993 (NSW) to allow a process for:

- 1. the creation of electoral wards with variations in the number of electors of more than 10% in each ward in the area; and*
- 2. different numbers of councillors to be elected for each ward provided that the councillor:elector ratio of each ward is such as to maintain the principle of democratic representation across the area.*

CARRIED

**EDBC18/42 ANNUAL RISK MANAGEMENT PROGRAM AND INSURANCE MATTERS
(ID18/1235)**

The Committee had before it the report dated 30 July 2018 from the Executive Manager Governance and Internal Control regarding Annual Risk Management Program and Insurance Matters.

Moved by Councillor K Parker and seconded by Councillor J Diffey

MOTION

That the Risk Management Program review and the classes of insurance acquired for 2018/2019 be noted.

CARRIED

Councillor D Grant declared a pecuniary, significant interest in the matter now before the Committee and left the room and was out of sight during the Committee's consideration of this matter. The reason for such interest is that Councillor D Grant works for Elders Insurance who are underwritten by QBE. If Council were to call public tenders for insurances, QBE could be involved in the process.

**EDBC18/43 PROPOSED AMENDMENT TO FEES AND CHARGES OF THE 2018/2019
REVENUE POLICY (ID18/1194)**

The Committee had before it the report dated 30 July 2018 from the Director Planning and Environment regarding Proposed Amendment To Fees and Charges of the 2018/2019 Revenue Policy.

Moved by Councillor K Parker and seconded by Councillor V Etheridge

MOTION

- 1. That the attached draft amendments to the 2018/2019 Revenue Policy be adopted by Council for the purposes of public exhibition for a period of not less than 28 days.**
- 2. That following public exhibition a further report be presented to Council for its consideration.**

CARRIED

EDBC18/44 LEAVE OF ABSENCE

Requests for leave of absence were received from Councillors D Gumley and J Ryan who were absent from the meeting for personal reasons.

Moved by Councillor A Jones and seconded by Councillor J Diffey

MOTION

That such requests for leave of absence be accepted and Councillors D Gumley and J Ryan be granted leave of absence from this meeting.

CARRIED

The meeting closed at 6.06pm.

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CHAIRMAN



REPORT: Bootherba Road Upgrade - Application to the Growing Local Economies Fund

AUTHOR: Economic Project and Grants Officer
REPORT DATE: 30 August 2018
TRIM REFERENCE: ID18/1394

EXECUTIVE SUMMARY

Dubbo Regional Council is seeking funding from the NSW Government's Growing Local Economies Fund to deliver an upgrade to Bootherba Road, Dubbo specifically at the intersection with the Dubbo Regional Livestock Markets (DRLM), at the western end of Bootherba Road.

The existing arrangement of the Bootherba Road/DRLM intersection negatively impacts on the safe and efficient operation of Bootherba Road and the surrounding arterial road network.

The short approach to the DRLM, which incorporates a level rail crossing on a slope, cannot sufficiently accommodate the ever-increasing longer heavy vehicles accessing the DRLM, affects driver safety, animal welfare (stock standing in trucks), and results in the loss of productivity with the stop/start of vehicles when approaching the rail crossing.

The project aims to improve general access arrangements to the DRLM from Bootherba Road which would achieve greater safety measures, transport efficiencies and productivity gains. Based on initial investigation and design commissioned by Council, possible options to improve the intersection include road realignment to better accommodate vehicles accessing the DRLM and signalling improvements at the intersection.

Council has identified the NSW Government's Growing Local Economies Fund as an appropriate avenue to seek funding to assist with the delivery of the project. The Growing Local Economies Fund, administered through the Department of Premier and Cabinet (DPC), is part of the NSW Government's \$1.3 billion Regional Growth Fund and is designed to deliver economic growth and productivity in Regional NSW.

Council has submitted an Expression of Interest (EOI) for funding as a first stage in the application process and is currently awaiting formal notification from DPC as to the success of the EOI and an invitation to progress to a full business case application. Should the EOI prove successful, Council would like to accept the invitation to prepare a business case with the confidence of Councillors.

ORGANISATIONAL VALUES

Customer Focused: This Council initiative, which aligns with key infrastructure themes in Council's recently adopted *2040 Community Strategic Plan (2018)*, will deliver significant outcomes for the Dubbo region. With the community at the centre of everything Council does, Council has sought external funding partners to deliver this project cost effectively and ensure ratepayer's money achieves greater benefit for cost.

Integrity: With transparency being a key tenant of grants governance, Council seeks to advise Councillors of major funding strategies for use of ratepayer's money to deliver priority infrastructure projects that will benefit the Dubbo Regional Local Government Area.

One Team: This funding application and the delivery of the Boothenba Road upgrade project will be a collaboration between Council's Economic Development and Business Division and Infrastructure and Operations Division.

FINANCIAL IMPLICATIONS

A requirement of the Regional Growth Fund: Growing Local Economies program is that all projects must have a minimum financial co-contribution of 25 per cent of the total grant amount.

The initial estimated total project cost is between \$5 million and \$6 million dollars (to be refined during the development of a full Business Case), therefore Council would need to provide a minimum co-contribution of between \$1 million and \$1.2 million.

Council's funding will include contributions from the DRLM, the road infrastructure program and a proportion from private partnerships with external stakeholders who will directly benefit from the road upgrade project – to be negotiated through the development of the full business case application.

POLICY IMPLICATIONS

There are no policy implications arising from this report.

RECOMMENDATION

That if Council's Expression of Interest to the NSW Government's Growing Local Economies Fund is successful, then Council progresses with a full business case funding application for the Boothenba Road upgrade project.

Matthew Taylor
Economic Project and Grants Officer

BACKGROUND

Dubbo Regional Council is seeking funding from the NSW Government's Growing Local Economies Fund to deliver an upgrade to Boothenna Road, Dubbo specifically at the intersection with the Dubbo Regional Livestock Markets (DRLM), at the western end of Boothenna Road.

REPORT

Boothenna Road is classified as a major arterial road in Dubbo, primarily linking the Golden Highway with the Newell Highway and links with Troy Bridge Road and Bunglegumbie Road to connect to the Mitchell Highway to the west of Dubbo. It is a key freight route that facilitates significant economic growth and productivity in the Dubbo region. Please refer to **Appendix 1** for a location map of Boothenna Road.

Key businesses and industries are located along Boothenna Road including the Dubbo Regional Livestock Markets (DRLM), Fletcher International Exports – both the sheep abattoir/processing facility and their grain storage/transportation facility, a number of transportation companies and a potential new commercial truck stop facility to be located opposite the DRLM (Council is currently assessing the proponent's recently-submitted Development Application).

Issues

The existing arrangement of the Boothenna Road/DRLM intersection negatively impacts on the safe and efficient operation of Boothenna Road and the surrounding arterial road network. The short approach to the DRLM incorporates a level rail crossing on a slope which see the following challenges:

- The DRLM approach (between Boothenna Road and the rail crossing) no longer safely accommodates the stacking and storage capacity of heavy vehicles entering or leaving the DRLM. The ever-increasing truck combinations accessing the DRLM include Double Road Train, B-Triple, AB-Triple vehicles.
- Large heavy vehicle combinations overhang the rail line when waiting to turn on to Boothenna Road, which is a significant safety concern. This has resulted in serious accidents in past years, specifically a collision between train and truck.
- With the rail crossing on a slope, the stop/start is hard on heavy vehicles and animal welfare (with stock standing in trucks).
- The intersection does not sufficiently cope with the increased heavy vehicle movements and stock accessing the DRLM.

Benefits

The upgrade project aims to improve general access arrangements to the DRLM from Boothenna Road and improve the safety of heavy vehicle drivers and improve animal welfare. Based on initial investigation and design commissioned by Council, possible options to improve the intersection include road realignment to accommodate vehicles accessing the

DRLM and signalling improvements at the intersection. These options would see greater transport efficiencies and productivity gains.

Proposed Truck Stop Facility

Investigation and design work to date has not included any provisions for the commercial truck stop facility that is proposed on Boothenba Road opposite the DRLM. Such a facility would result in significant economic benefits to the Dubbo region as the city does not have a major commercial truck stop/truck wash/driver rest facility.

The road upgrade project provides an opportunity to align stakeholders to determine the optimal access arrangements to both facilities. For instance, re-align the entrance to the truck stop facility directly opposite to the DRLM entrance, which would simplify the movement of heavy vehicles between the two facilities and enhance driver and animal safety.

Funding

Council has identified the NSW Government's Growing Local Economies Fund as an appropriate avenue to seek funding to assist with the delivery of the Boothenba Road upgrade project.

The Growing Local Economies Fund, administered through the Department of Premier and Cabinet (DPC), is part of the NSW Government's \$1.3 billion Regional Growth Fund and is designed to deliver economic growth and productivity in Regional NSW. The minimum grant amount is \$1 million with no maximum grant amount.

The application process for the Growing Local Economies Fund is a two-stage approach. The first stage is an Expression of Interest (EOI) with an overview of the project and funding sought. Stage two, if formally invited by DPC, is the submission of a full business case for DPC consideration.

Council has submitted an EOI and is currently awaiting formal advice from DPC as to its success and if to progress with a business case. Should the EOI prove successful then Council would like to accept the invitation to prepare a business case with the confidence of Councillors.

Alignment with Strategic Plans

The project aligns with a number of strategic planning documents for the Dubbo region including:

- Dubbo Regional Council's *2040 Community Strategic Plan (2018)*, specifically the key infrastructure themes of the safety, functionality, efficiency and economic connectivity of Council's road network.
- The *Central Orana Regional Economic Development Strategy 2018-2022*, a central document in accessing NSW Government funding, which identifies the Dubbo Regional Livestock Market Rail Crossing Upgrade as a significant infrastructure upgrade project.
- The NSW Government's *Regional Development Framework – Making it Happen in the Regions*, providing quality infrastructure in regional NSW, support growing regional centres and activating their economic potential.

- The NSW Planning and Environment's *Central West and Orana Regional Plan* which includes goals of providing quality freight transport and infrastructure networks and enhancing road and rail freight links.
- The *Future Transport 2056: NSW Draft Freight and Ports Plan* which provides for NSW Government funding initiatives to support initiatives that improve efficient and higher mass limit freight movement in regional NSW.
- The NSW Government's *20 Year Economic Vision for Regional NSW* (July 2018) that sets out the NSW Government's principles and economic enablers for increasing freight transport efficiencies in regional NSW.

SUMMARY

If Council's Expression of Interest to the NSW Government's Growing Local Economies Fund is successful, then Council would like to progress with a full business case funding application for the Boothenba Road upgrade project.

Appendices:

- 1 [↓](#) Boothenba Road Location Map - Report to the Economic Development, Business and Corporate Committee (10.09.18)

Appendix 1 – Bootherba Road – Location Maps





DUBBO REGIONAL
COUNCIL

REPORT: 2017/2018 Budget Highlights Report

AUTHOR: Chief Financial Officer
REPORT DATE: 28 August 2018
TRIM REFERENCE: ID18/1347

EXECUTIVE SUMMARY

Council has conducted a review of actual income and expenditure to budget for the quarter and year ended 30 June 2018. This review is significant as it is the first harmonised budget for Dubbo Regional Council. Although not required to be adopted by Council as a formal Quarterly Business Review Statement, it is an opportunity to reflect on the year passed and achievements for the year.

ORGANISATIONAL VALUES

Customer Focused: The Quarterly Budget reviews progress against the original and revised annual budgets at the end of each quarter of the financial year. The June quarterly review is an opportunity to inform the community about significant achievements.

Integrity: The Responsible Accounting Officer indicates if Council will be in a satisfactory financial position at the end of the financial year.

One Team: The Budgets are consolidated across all of Council.

FINANCIAL IMPLICATIONS

It should be noted that the Financial Statements and Audited results for 2017/2018 have not yet been finalised. The final results will be determined following the completion and audit of the 2017/2018 Financial Statements which is scheduled for 31 October 2018.

POLICY IMPLICATIONS

There are no policy implications arising from this report.

RECOMMENDATION

That the information contained within the report of the Chief Financial Officer dated 28 August 2018 be noted.

Jane Bassingthwaighte
Chief Financial Officer

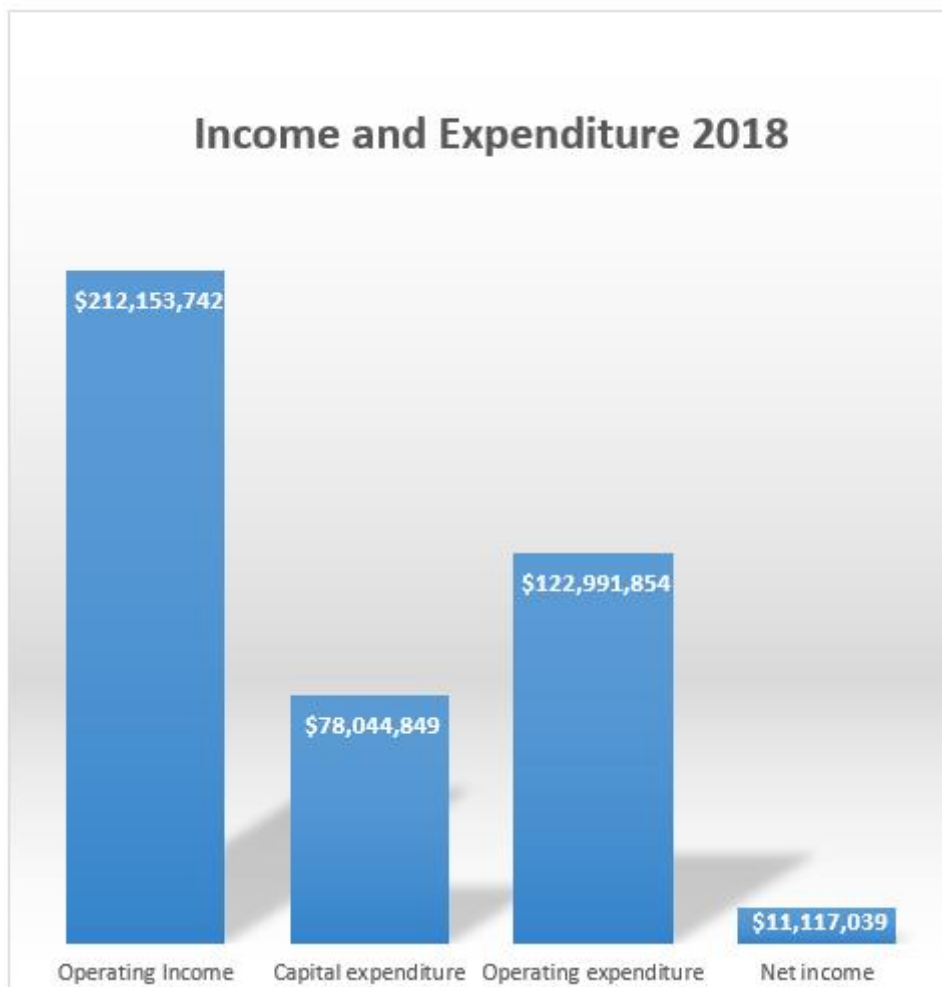
REPORT

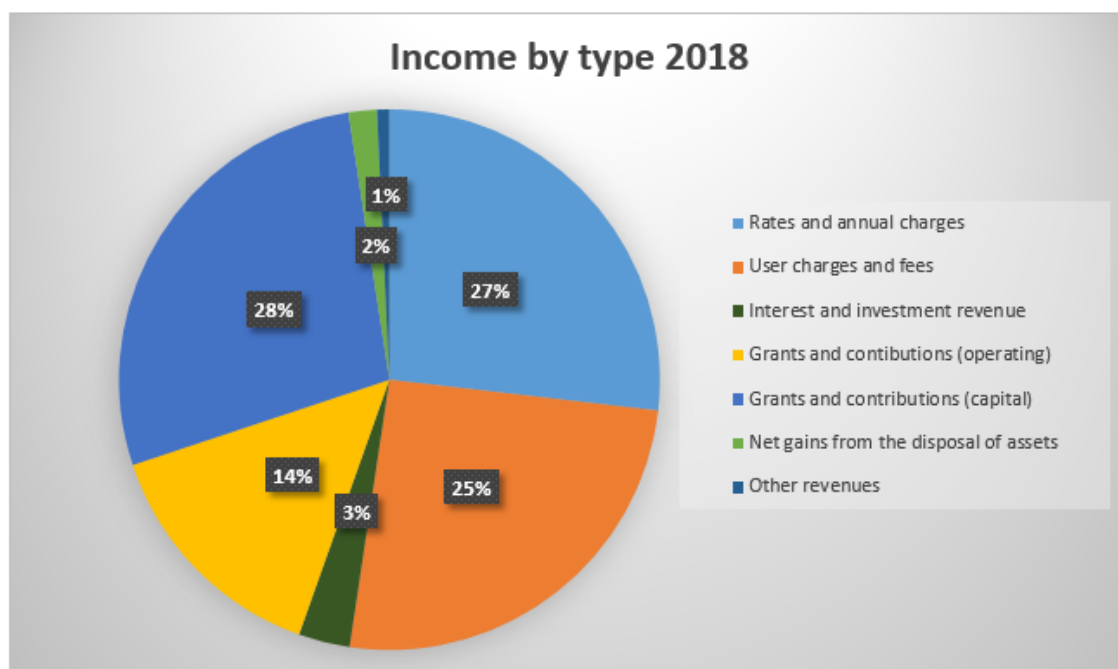
The quarterly review for the period ending 30 June 2018 of Dubbo Regional Council's 2017/2018 Budget Review Statements shows satisfactory implementation.

Council has conducted a review of actual income and expenditure to budget for the quarter and year ended 30 June 2018. This review is significant as it is the first harmonised budget for Dubbo Regional Council. Although not required to be adopted by Council as a formal Quarterly Business Review Statement, it is an opportunity to reflect on the year passed and achievements for the year.

After the completion of the June quarter review, there is an additional \$2 Million in organisational savings identified. This saving has been largely generated as a result of wage savings due to staff vacancies now being quarantined. These funds are held in an internally restricted asset to be available for additional projects as approved by Council.

A summary of the budget results are depicted as follows:





Dubbo Regional Council manages over \$2.4 Billion of community assets and infrastructure and has spent over \$200 Million on the provision of services in 2017/2018. Significant investment of over \$17 Million in maintaining and improving Dubbo Local Government Areas assets such as roads, footpaths and cycleways is a highlight of the Dubbo Regional Council result for the 2017/2018 year. Another highlight is the significant grant funding received from the State Government under the Stronger Communities Fund in the 2017/2018 year. \$27.7 Million of funding is being invested in ten major projects including the Redevelopment of the Wellington Pool, the Redevelopment of Victoria Park and the new SES/VRA headquarters. Council has developed a dedicated team – Building and Infrastructure Leadership Team (BILT) who together with internal staff and external consultants will focus on delivering the new infrastructure within allocated timelines.

The Financial Statements for the year ended 30 June 2018 for Dubbo Regional Council are prepared in accordance with the Australian Auditing Standards and are due for completion by 31 October 2018. This is the final year Luka Group will act as the intermediate auditor for Council. For the 2018/2019 financial statements the audit will be handled directly by the NSW Auditor General.

Below is a summary in respect of various major capital projects undertaken during 2017/2018 and projects still in progress into 2018/2019:

Waste Collection Services

New household waste collection services commenced on the 1 July 2018. Dubbo residents transitioned from two bins to three bins with Wellington and surrounding village residents transitioning from one bin to three bins. Issues associated with the collections are being resolved as quickly as possible.

Dubbo Regional Organics Processing Plant

The Dubbo Regional Organics Processing Plant (DROPP) was officially opened in July 2018 at the Whylandra Waste and Recycling Facility. The DROPP will process food and garden organic waste from Dubbo Regional Council, Mid-Western Regional Council and Narromine Shire Council. The plant has commenced operations and has been receiving food and garden waste from residents across the region since 2 July, 2018. The DROPP will divert a significant volume of organic waste from landfill, reducing environmental pollution caused by leachates and methane gas production. At the end of the process, a valuable resource in the form of compost will be available for use. In total, the new facility represents a significant investment of more than \$7 million into a new regional organics recycling industry. This project has been funded by the NSW EPA, Dubbo Regional Council and JR Richards and Sons.

Gundy Creek Bridge

The Gundy Creek Bridge construction is complete and the formal opening occurred on 30 July 2018. The original timber bridge was replaced with a two-lane concrete bridge that can accommodate higher mass limit vehicles and will improve freight transport and community access. There was a total investment in the project of \$1.37 million.

Rural Fire Training Facility

Demolition of the old Air Services Compound is complete. The major realignment of the stormwater drainage channel is complete, along with bulk earthworks associated with internal road construction. Construction of four bay sheds and hardstand is over 50% complete.

Dubbo Airport General Aviation Precinct Project

The project is well advanced. Temporary side track access has been constructed for Judy Jakins Drive. Earthworks are well advanced, pavement works are underway and sewer installations are well advanced. The project is planned to be completed by early September 2018, weather permitting.

Victoria Park Project

The main construction of the Victoria Park No. 2 and 3 car park commenced at the start of June 2018 with the works expected to take 8 to 10 weeks to complete. As part of this project 30 super advanced trees will be replanted within the immediate area (car park and oval surrounds). Installation of the fences around Victoria Park 2 and 3 will commence at the completion of the new car park.

Wongarbron Park

The redevelopment of Wongarbron Park has been completed. The park redevelopment included a full playground renewal, installation of two park picnic settings and shelters, two futsal soccer goals and a new hot water system unit within the club house. Additionally, a granite path continuation was undertaken to create an accessible link to the recently redeveloped infrastructure.

Dubbo Regional Botanic Garden Playground

Bulk earthworks and pathways are completed and the amenity block has been installed. The site fencing, irrigation and playground equipment (including the All Abilities Swing) is to be installed in August and September 2018. The project is to be completed by the end of October 2018.

Dubbo Regional Botanic Garden Carpark

The carpark was completed and officially opened on 23 July 2018. This was partly funded by the Stronger Communities Fund of \$240,000 with the remainder contributed by Council.

Dubbo Regional Theatre and Convention Centre Operable Door

Dubbo Regional Theatre and Convention Centre's large auditorium had a new operable acoustic dividing door installed in July 2018. Funding of \$163,467 was received from the NSW Government Arts and Culture Infrastructure Grants Program and Council contributed the remaining \$150,000. The project saw the original operable dividing door removed and replaced with a new 21.5 metre acoustic door. The upgraded doors make the venue more accessible and cost effective for hirers and the DRTCC will now be able to offer a versatile and accessible space for weddings, community, cultural events, exhibitions, meetings, workshops and conferences.

Playmates Cottage

Playmates Cottage celebrated the official opening of its purpose-built \$1.8 million facility on Moran Drive in June 2018. The new Playmates was built on Dubbo Regional Council land, and its construction was fully funded by the NSW government.

Dubbo Aquatic Leisure Centre

The renewal of the Dubbo Aquatic Leisure Centre grandstand roof was completed by the end of June 2018 at a cost of \$120,000. The new water play area is currently under construction and is on track to be completed by September 2018 with an opening event scheduled for 7 October 2018.

Wellington Aquatic Leisure Centre

Tenders for the Wellington Memorial Pool renewal are currently under determination having re-entry closed on 4 September 2018. The estimated completion date is October 2019.

Boundary Road Extension

Wheeler's Lane roundabout construction is advancing with asphalt placed on the western side. Boundary Road/Wheeler's Lane intersection has reopened with traffic travelling in the western lane and detour through Avian Estate now removed. Construction of the eastern side of the roundabout is continuing with stormwater installation and excavation work for road pavement commencing.



**DUBBO REGIONAL
COUNCIL**

Report of the Audit and Risk Management Committee - meeting 5 September 2018

AUTHOR: Administration Officer - Governance
REPORT DATE: 4 September 2018

The Committee had before it the report of the Audit and Risk Management Committee meeting held 5 September 2018.

RECOMMENDATION

That the report of the Audit and Risk Management Committee meeting held on 5 September 2018, be adopted.

Appendices:

- 1** [↓](#) Audit and Risk Management Committee - 05/09/2018 - Reports
- 2** [↓](#) General Purpose Financial Statements 2017/2018
- 3** [↓](#) Special Purpose Financial Statements 2017/2018



**REPORT
AUDIT AND RISK MANAGEMENT
COMMITTEE
5 SEPTEMBER 2018**

PRESENT: Core Members (Voting):

Councillors A Jones, B Shields, Mr J Walkom (Independent Member) and Mr A Fletcher (Independent Member).

Attendees (Non-Voting):

The Executive Manager Governance and Internal Control, the Internal Auditor, the Chief Financial Officer, the Audit/Statutory Reporting Accountant and Marco Monaco (Audit Office of NSW) (via telephone).

J Walkom assumed chairmanship of the meeting.

The proceedings of the meeting commenced at 11.05am.

WELCOME

AUD18/30 LEAVE OF ABSENCE (ID18/1350)

A request for leave of absence was received from the Chief Executive Officer, the Director Corporate Services and Renee Meimaroglou (Audit NSW) who were absent from the meeting due to prior work commitments and Mr S Bassett (Community Representative) who was absent from the meeting due to the personal reasons.

Moved by A Fletcher and seconded by A Jones

RECOMMENDATION

That such request for leave of absence be accepted and the Chief Executive Officer, the Director Corporate Services and Renee Meimaroglou (Audit NSW) and Mr S Bassett (Community Representative) be granted leave of absence from this meeting.

AUD18/31 DECLARATION OF INTERESTS (ID18/1351)

No conflicts of interest were declared.

**AUD18/32 REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE - MEETING 15
JUNE 2018 (ID18/1352)**

The Committee had before it the report of the Audit and Risk Management Committee meeting held 15 June 2018.

Moved by A Fletcher and seconded by A Jones

RECOMMENDATION

That the report of the Audit and Risk Management Committee meeting held on 15 June 2018, as amended be adopted.

FINANCIAL STATEMENTS/EXTERNAL AUDIT REPORT

Update on Financial Statements

AUD18/33 REFERRAL OF THE 2017/2018 FINANCIAL STATEMENTS TO AUDIT (ID18/1318)

The Committee had before it the report dated 16 August 2018 from the Chief Financial Officer regarding Referral of the 2017/2018 Financial Statements to Audit.

Moved by A Fletcher and seconded by A Jones

RECOMMENDATION

- 1. That the committee note that the 2017/2018 audit will commence on 10 September 2018.**
- 2. That the draft financial statements be noted.**
- 3. That the Audit and Risk Management Committee be provided with a report out of session of the result of the investigation into the 2015/2016 road revaluation.**

External Auditor's Management Letters

No matters to report at this time.

Significant Developments in Financial Reporting Framework

No matters to report at this time.

INTERNAL AUDIT

**AUD18/34 INTERNAL AUDIT PROGRAMME STATUS REPORT AS AT 21 AUGUST 2018
(ID18/1327)**

The Committee had before it the report dated 21 August 2018 from the Internal Auditor regarding Internal Audit Programme Status Report as at 21 August 2018.

Moved by A Jones and seconded by A Fletcher

RECOMMENDATION

That the information contained within the internal audit program status report of the Internal Auditor dated 21 August 2018 be noted.

**AUD18/35 INTERNAL AUDIT REVIEW PLAN - EVENTS MANAGEMENT PROCESS
(ID18/1338)**

The Committee had before it the report dated 23 August 2018 from the Internal Auditor regarding Internal Audit Review Plan - Events Management Process.

Moved by A Fletcher and seconded by A Jones

RECOMMENDATION

That the information contained within the report of the Internal Auditor dated 23 August 2018 be noted.

COMMITTEE MEMBERS REPORTS

No matters to report at this time

ACTION LIST

AUD18/36 ARMC ACTION LIST AS AT SEPTEMBER 2018 (ID18/1341)

The Committee had before it the report dated 27 August 2018 from the Executive Manager Governance and Internal Control regarding ARMC Action List as at September 2018.

Moved by A Jones and seconded by A Fletcher

RECOMMENDATION

- 1. That the information contained in the report of the Executive Manager Governance and Internal Control dated 27 August 2018 be noted.**
- 2. That all items marked as completed be deleted from the list.**
- 3. That the action plan be noted and the completion dates updated accordingly.**

GENERAL BUSINESS

**AUD18/37 RESPONSE TO THE ASSURANCE REPORT FROM THE EXTERNAL QUALITY
ASSESSMENT OF THE BOD INTERNAL AUDIT UNIT (ID18/1326)**

The Committee had before it the report dated 20 August 2018 from the Internal Auditor regarding Response to the Assurance Report from the External Quality Assessment of the BOD Internal Audit Unit.

Moved by A Jones and seconded by A Fletcher

RECOMMENDATION

That the information contained within the report of the Internal Auditor dated 20 August 2018 be noted.

The Internal Auditor declared an interest in this report, and remained in the room.

The meeting closed at 12.37pm.

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CHAIRMAN

AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018

AUD18/32



DUBBO REGIONAL
COUNCIL

**Report of the Audit and Risk
Management Committee - meeting 15
June 2018**

AUTHOR: Administration Officer - Governance
REPORT DATE: 28 August 2018

The Committee had before it the report of the Audit and Risk Management Committee meeting held 15 June 2018.

RECOMMENDATION

That the report of the Audit and Risk Management Committee meeting held on 15 June 2018, be adopted.

AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018

AUD18/32



**REPORT
AUDIT AND RISK MANAGEMENT
COMMITTEE
15 JUNE 2018**

PRESENT: Core Members (Voting):

Councillors B Shields, Mr J Walkom (Independent Member) and Mr A Fletcher (Independent Member).

Attendees (Non-Voting):

The Chief Executive Officer, the Executive Manager Governance and Internal Control, the Internal Auditor, the Director Corporate Services, the Manager Financial Operations, the Audit/Statutory Reporting Accountant and Marco Monaco (Audit Office of NSW) (via telephone).

J Walkom assumed chairmanship of the meeting.

The proceedings of the meeting commenced at 10.00am.

AUD18/19 LEAVE OF ABSENCE (ID18/953)

Requests for leave of absence were received from Councillor A Jones, Mr S Bassett (Community Representative), Chris Harper (Audit NSW) and Renee Meimaroglou (Audit NSW) who were absent from the meeting due to the personal reasons.

RECOMMENDATION

That such requests for leave of absence be accepted and Councillor A Jones, Mr S Bassett (Community Representative), Chris Harper (Audit Office of NSW) and Renee Meimaroglou (Audit Office of NSW) be granted leave of absence from this meeting.

AUD18/20 DECLARATION OF INTERESTS (ID18/954)

No conflicts of interest were declared.

**AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018**

AUD18/32

**AUD18/21 REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE - MEETING 13
MARCH 2018 (ID18/955)**

The Committee had before it the report of the Audit and Risk Management Committee meeting held 13 March 2018.

RECOMMENDATION

That the report of the Audit and Risk Management Committee meeting held on 13 March 2018, be adopted.

FINANCIAL STATEMENTS/EXTERNAL AUDIT REPORT

Update on Financial Statements

**AUD18/22 FINAL MANAGEMENT LETTER FOR THE 2016/2017 FINANCIAL STATEMENTS
AND INTERIM MANAGEMENT LETTER FOR THE 2017/2018 FINANCIAL
STATEMENTS (ID18/823)**

The Committee had before it the report dated 5 June 2018 from the Manager Financial Operations regarding Final Management Letter for the 2016/2017 Financial Statements and Interim Management Letter for the 2017/2018 Financial Statements.

RECOMMENDATION

That the information contained within the report of the Manager Financial Operations dated 5 June 2018 be noted with the inclusion of the revised final interim management letter dated 7 June 2018.

**AUD18/23 AUDIT OFFICE OF NSW CLIENT SERVICE PLAN FOR THE AUDIT OF DUBBO
REGIONAL COUNCIL FOR THE YEAR ENDING 30 JUNE 2018 (ID18/922)**

The Committee had before it the report dated 30 May 2018 from the Manager Financial Operations regarding Audit Office of NSW Client Service Plan for the Audit of Dubbo Regional Council for the year ending 30 June 2018.

RECOMMENDATION

- 1. That the Committee note the report Audit Office of NSW Client Service Plan for the Audit of Dubbo Regional Council for the year ending 30 June 2018.**
- 2. That the Audit and Risk Committee meeting scheduled for 7 September 2018 be rescheduled to the 5 September 2018.**

Mr Marco Monaco (Audit Office of NSW) left the meeting, the time being 10.25am.

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AUD18/24 AUDIT OFFICE REPORT ON LOCAL GOVERNMENT 2017 (ID18/948)

The Committee had before it the report dated 5 June 2018 from the Manager Financial Operations regarding Audit Office Report on Local Government 2017.

RECOMMENDATION

That the report of the Manager Financial Operations dated 5 June 2018 be noted.

External Auditor's Management Letters

No matters to report at this time.

Significant Developments in Financial Reporting Framework

No matters to report at this time.

INTERNAL AUDIT

**AUD18/25 INTERNAL AUDIT PROGRAMME STATUS REPORT AS AT 1 JUNE 2018
(ID18/926)**

The Committee had before it the report dated 1 June 2018 from the Internal Auditor regarding Internal Audit Programme Status Report as at 1 June 2018.

RECOMMENDATION

- 1. That the information contained within the internal audit program status report of the Internal Auditor dated 1 June 2018 be noted.**
- 2. That it be noted that the Chief Executive Officer advised the Committee that it is Council's intention to appoint an Internal Auditor and that Council formerly thank the current BOD Alliance Internal Auditor, Shephard Shambira, for his efforts in this role.**

**AUD18/26 INTERNAL AUDIT REVIEW REPORT - ACCOUNTS PAYABLE TRANSACTIONS -
TEST FOR DUPLICATE PAYMENTS (ID18/934)**

The Committee had before it the report dated 1 June 2018 from the Internal Auditor regarding Internal Audit Review Report - Accounts Payable Transactions - Test for duplicate payments.

RECOMMENDATION

That the information contained within the internal audit program status report of the Internal Auditor dated 1 June 2018 be noted.

COMMITTEE MEMBERS REPORTS

No matters to report at this time

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ACTION LIST

AUD18/27 ARMC ACTION LIST AS AT MAY 2018 (ID18/958)

The Committee had before it the report dated 6 June 2018 from the Executive Manager Governance and Internal Control regarding ARMC Action List as at May 2018.

RECOMMENDATION

1. That the information contained in the report of the Executive Manager Governance and Internal Control dated 6 June 2018 be noted.
2. That all items marked as completed be deleted from the list.

GENERAL BUSINESS

AUD18/28 INDEPENDENT MEMBERS OF THE AUDIT AND RISK MANAGEMENT COMMITTEE (ID18/950)

The Committee had before it the report dated 5 June 2018 from the Executive Manager Governance and Internal Control regarding Independent Members of the Audit and Risk Management Committee.

RECOMMENDATION

1. That Council publically invite expressions of interest for the position of Independent Member to the Audit and Risk Management Committee.
2. That Mr Fletcher, Mr Walkom and Mr Bassett be formally thanked for their contribution to Council's Audit and Risk Management Committee.
3. That those expressions of interest once received be forwarded to Council for determination of the independent members.
4. That the existing external members of the Committee remain members until the completion of the Audit and Risk Management Committee meeting scheduled for 5 September 2018.

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**AUD18/29 EXTERNAL QUALITY ASSESSMENT OF THE BATHURST, ORANGE DUBBO
ALLIANCE INTERNAL AUDIT UNIT (ID18/957)**

The Committee had before it the report dated 6 June 2018 from the Executive Manager Governance and Internal Control regarding External Quality Assessment of the Bathurst, Orange Dubbo Alliance Internal Audit Unit.

RECOMMENDATION

1. That the information contained in the report of the Executive Manager Governance and Internal Control dated 6 June 2018 be noted.
2. That a meeting be convened between Dubbo Regional Council, Orange City Council and Bathurst Regional Council during August 2018 to discuss the results of the external quality assessment review of the Internal Audit Unit.

The meeting closed at 11.13am.

.....
CHAIRMAN

AUDIT AND RISK MANAGEMENT COMMITTEE
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AUD18/33



REPORT: Referral of the 2017/2018 Financial Statements to Audit

AUTHOR: Chief Financial Officer
REPORT DATE: 16 August 2018
TRIM REFERENCE: ID18/1318

EXECUTIVE SUMMARY

The Local Government Act 1993 requires that Council, by resolution, provide statements that the Financial Statements have been prepared in accordance with the relevant Acts, Standards and Codes of Accounting Practice, and that they present fairly the Council's financial position.

Statements are required to be made by the Mayor, Deputy Mayor, Chief Executive Officer and Responsible Accounting Officer to enable the current draft Financial Statements and Special Purpose Financial Statements to be submitted for Audit. The audit is scheduled to be completed in the ensuing three weeks. Following completion of the audit Council's auditors, Audit Office, will provide a presentation on the final audited 2017/2018 Financial Statements to the October 2018 Ordinary meeting of Council.

ORGANISATIONAL VALUES

Customer Focused: The audited Financial Statements are presented to the community to provide them a better understanding of Council's financial position and to ensure they are true and fair with no material misstatement. Notes in the Financial Statements are designed to provide users with additional information on items appearing in the Income Statement and Balance Sheet.

Integrity: Section 413 of the Local Government Act 1993, provides as that the general purpose financial report must be prepared in accordance with this Act and the regulations, and requirements of the publications issued by the Australian Accounting Standards Board, as in force for the time being, subject to the regulations, and such other standards as may be prescribed by the regulations.

One Team: Preparation of the Annual Financial Statements requires coordination and input from across all of Council's operations.

FINANCIAL IMPLICATIONS

The financial statements show Council to be in a sound financial position as at 30 June 2018.

POLICY IMPLICATIONS

There are no policy implications arising from this report.

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RECOMMENDATION

1. That the statement in accordance with Section 413(2)(c) of the Local Government Act 1993, and Clause 215 of the Local Government (General) Regulation 2005, for the General Purpose Financial Statements for the year ending 30 June 2018 be made.
2. That the statement in accordance with the requirements of the Code of Accounting Practice in relation to the Special Purpose Financial Statements for the year ending 30 June 2018 be made.
3. That the statements be signed by the Mayor, Deputy Mayor, Chief Executive Officer and Responsible Accounting Officer.

Jane Bassingthwaight
Chief Financial Officer

REPORT

Section 413 of the Local Government Act 1993 requires that:

1. A Council must prepare financial reports for each year, and must refer them for audit as soon as practicable (having regard to the requirements of Section 416 (1)) after the end of that year.
2. A Council's financial reports must include:
 - a) a general purpose financial report; and
 - b) any other matters prescribed by the regulations, and
 - c) a statement in the approved form by the Council as to its opinion on the general purpose financial report.
3. The general purpose financial report must be prepared in accordance with this Act and the regulations and the requirement of:
 - a) The publications issued by the Australian Accounting Standards Board, as in force for the time being, subject to the regulations, and
 - b) Such other standards as may be prescribed by the regulations.

The statement required by Section 413 (2) (c) and the Local Government (General) Regulation 2005, clause 215 requires the following:

215 (1) That the statement required by Section 413 (2) (c) of the Act must:

- a) be made by resolution of the Council, and
- b) be signed by:
 - i) the Mayor; and
 - ii) at least one other member of the Council; and
 - iii) the Responsible Accounting Officer; and
 - iv) the Chief Executive Officer (if not the responsible accounting officer)

215 (2) The statement must indicate:

- a) whether or not the Council's annual financial reports have been drawn up in accordance with:
 - i) The Act and this Regulation; and
 - ii) The Code and the Manual; and
 - iii) The Australian Accounting Standards issued by the Australian Accounting Standards Board, and
- b) whether or not those reports present fairly the Council's financial position and operating result for the year; and

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- c) whether or not those reports accord with the council's accounting and other records; and
- d) whether or not the signatories know of anything that would make those reports false or misleading in any way,

and include such information and explanations as will prevent those reports from being misleading because of any qualification that is included in the statement.

215 (3) The council must ensure that the statement is attached to the relevant annual financial reports.

The Financial Statements of Council have been prepared to comply with the requirements of the Local Government Act 1993, the Australian Accounting Standards, the Local Government Code and Manual. Copies of the Financial Statements have been provided as an attachment to this report (Appendix 1 and 2).

A statement must also be made in relation to the Special Purpose Financial Statements. The statement must be made by resolution of Council, signed by the Mayor, at least one other member of the Council, the Responsible Accounting Officer, and the Chief Executive Officer.

The statement by Council must indicate whether or not the Council's Special Purpose Financial Reports have been drawn up in accordance with the Code and Manual.

The Special Purpose Financial Statements have been drawn up in accordance with the Local Government Code of Accounting Practice and Financial Reporting and the Department of Local Government guidelines "Pricing and Costing for Council Businesses: A Guide to Competitive Neutrality."

It must be noted that a prior year accounting error, in relation to the 2015 roads revaluation has been identified, but is has not been reported in the attached Financial Statements as the actual value of the error was unable to be finalised prior to this report. This will be further investigated during the 2017/2018 audit.

As indicated above, the statements are required to be made to enable the Financial Statements and the Special Purpose Financial Statements to be submitted for audit. The statements are included within Appendix 1 and Appendix 2. The audit is scheduled to be completed in the ensuing five weeks. Following completion of the audit, Council's Auditors, Audit Office, will provide a presentation on the Annual Financial Reports to the October 2018 Ordinary meeting of Council.

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AUD18/34



**REPORT: Internal Audit Programme
Status Report as at 21 August 2018**

AUTHOR: Internal Auditor
REPORT DATE: 21 August 2018
TRIM REFERENCE: ID18/1327

EXECUTIVE SUMMARY

The strategic objective of the Council's internal audit function is to provide a consultancy service to management which focuses on providing insight on key risk issues and generating effective solutions to enhance the Council's risk management framework.

The internal audit programme (**Appendix 1**) was prepared based on the former Dubbo City Council risk registers. The programme was also presented to Executive Leadership Team for further input and feedback from Executive Leadership Team was considered. Executive Leadership Team noted that the list of presentations included in the proposed internal audit programme was based on the recent amendments to the Local Government Act (1993) NSW which are not yet in force. The Committee therefore resolved to defer adoption of such changes pending proclamation of the legislation and related Regulations.

At the time of preparing this report, a review of rates and charges transactions in accordance with a review plan approved by the Committee was substantially completed. The draft report is awaiting management comments. It was expected that management comments would be provided soon after the completion of certain financial year end external audit tasks, and the report will be presented to the next meeting.

An audit of the events management process is included in the approved internal audit programme. During the period under review, the Internal Auditor completed preliminary research into the Council's event management processes with a view to establish an outline of potential auditable issues of interest. Opportunities for improvement were identified based on these preliminary internal audit enquiries and it is recommended that the Committee consider this review complete on the basis of the preliminary findings and recommendations.

Completion of the scheduled internal audit programme tasks has been delayed by the fact that the scope of investigations arising from data extractions for a review of creditors' transactions and rates and charges transactions utilised more time than what was expected. The review of large samples of transactions can be time consuming, especially where the data extraction process requires to be refined to isolate more specific risk scenarios modelled after considering initial findings. Resolution of the Internal Auditor's enquiries on rates and charges transactions was also stalled by the current staffing level in the Revenue Accounting section. Furthermore, the Internal Auditor also carried out a follow up review of cash receipting processes at the Wellington Caves at the request of the Committee. The Internal Auditor's involvement in the BOD Alliance Internal Audit Quality Assessment Review

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was not included on the approved internal audit programme. The BOD Alliance member Councils engaged a consultant to carry out an evaluation of the 3 Councils internal audit processes and procedures in line with the standards set by the Institute of Internal Auditors. During the period under review, the Internal Auditor completed further work on the Quality Assurance Review report.

As a result of these factors, the following tasks scheduled for completion by June 2018 were not finalised as planned:

- Rates and charges transactions review – This task was substantially completed as at the time of preparing this report.
- Project management – This task was deferred at the request of management. The audit will be commenced once a new system and procedures currently being implemented is in place.
- Data integrity – testing of aspects of data integrity considered during the rates and charges review.

ORGANISATIONAL VALUES

Customer Focused: The strategic objective of the Council's internal audit function is to provide a consultancy service to management which focuses on providing insight on key risk issues and generating effective solutions to enhance the risk management framework. Enriched risk management processes improve efficiency and effectiveness in the attainment of service delivery promises to the Council's customers.

Integrity: A robust internal audit function supports the integrity of Council within the community.

One Team: The internal audit function supports cohesion and cooperation to minimise risk and improve the delivery of services to the community.

FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

POLICY IMPLICATIONS

There are no policy implications arising from this report.

RECOMMENDATION

That the information contained within the internal audit program status report of the Internal Auditor dated 21 August 2018 be noted.

Shephard Shambira
Internal Auditor

BACKGROUND

The BOD (Bathurst Regional Council, Orange City Council and Dubbo Regional Council) Alliance share an internal auditor. The General Managers/CEOs of the three (3) councils indicated that as much as is possible, it is desirable to carry out common audit assignments across the three (3) councils in order to facilitate the exchange of best practice. However, it is also acknowledged that in some cases the three (3) councils have differing requirements. As such it is not possible to always have a common internal audit programme.

The former Dubbo City Council had a comprehensive suite of operational risks registers and a corporate risks register which were actively monitored by management and utilised by the Internal Auditor to inform the development of a rolling three (3) year internal audit programme. The corporate risks and operational risks registers for the Dubbo Regional Council have not yet been prepared. This internal audit programme was partly informed with the operational risks registers for the former Dubbo City Council as it was considered that while the amalgamation with Wellington Council has changed some aspects of the Council's risk profile, the generic risks for most areas remains broadly the same. Consultation with management were carried out to ensure that any knowledge of current issues arising from the amalgamation are incorporated into formulating this internal audit programme.

The strategic objective of the Council's internal audit function is to provide a consultancy service to management which focuses on providing insight on key risk issues and generating effective solutions to enhance the risk management framework.

REPORT

How the current internal audit programme was established

The three (3) year internal audit programme was established through the following process:

1. The corporate risks register was reviewed to identify high risk areas.
2. The Internal Auditor reviewed the Operational Plan Performance Review reports for the quarter ended September 2016 and related Quarterly Budget Review Statements. Gaining an understanding of the Council's strategic objectives and progress towards attainment of such objectives ensures that the internal audit programme is aligned with the council's strategic objectives. Gaining an understanding of the Council budget and related movements helps to give insight on the significance of various auditable areas to the organisation.
3. Reviewed the Interim General Manager's six (6) Monthly review of the Dubbo Regional Council Delivery Program, incorporating the former Dubbo 2036 (2013-2017) and Wellington 2025 (2014-2018) Delivery Programs, as at 31 December 2016.
4. The External Auditor's scope of work as presented to the Audit and Risk Management Committee meeting of March 2017 was also evaluated to determine areas which required no additional detailed coverage. This includes the Internal Auditor's own understanding of typical issues addressed through an external audit as required by the Auditing Standards.

5. The internal auditor considered internal audit programmes for other councils and identified common topics.
6. The internal auditor considered the topics included in the internal audit programmes for the other BOD Alliance member councils and included some of these topics in the Bathurst Regional Council internal audit programme.
7. Requirements of the General Manager.
8. Consulted with the Executive Manager Governance and Internal Control, Manager Financial Services and the Manager Management Accounting and obtained commentary on proposed internal audit areas of focus.
9. The internal audit programme was also presented to the Executive Leadership Team for further input. The Executive Leadership Team were requested to suggest specific areas on which they require internal audit input in addition to what had been suggested in the draft programme. Where other substantial process improvement work is planned for some areas, it may not be prudent to commit limited internal audit resources in duplicating effort.
10. The current internal audit programme was then approved by the Interim General Manager and the Audit and Risk Management Committee on 1 June 2017.

The internal audit process

The internal audit process follows one of three (3) routes as described below.

1. Carry out preliminary research and prepare a review plan, obtain approval for the plan and carry out relevant enquiries and produce a report of findings.
2. Carry out preliminary research and formulate an opinion and conclude the review on the basis of initial findings. There are various reasons for choosing this option. For an example, issues known at the time of including the topic on the programme have since been resolved and audit evidence to this effect is sighted during the preliminary planning stage. For audits which are included on the programme every year, the key risk indicators may be reviewed and an opinion formulated at the preliminary planning stage that the process is working well and that no further benefit may be derived from investing limited internal audit resources into evaluating more transactions.
3. Some audit reviews are included in the programme as a follow up to previous reports. Audit objectives might already be specified on the ARMC Action List. Preliminary enquiries at the start of the review can highlight audit evidence which clearly shows that the issue is now resolved. In such scenarios, it is desirable to conclude the review on this basis, and apply internal audit resources to other areas.
4. The internal audit programme is designed to ensure that the Internal Auditor is able to provide input and insight on various matters not included in the approved internal audit programme as and when required to do so by management. The process is that where such requests do not take up a significant proportion of internal audit time they are resolved as they arise. However, where it is likely that a request not included in the approved internal audit programme is likely to take up a significant proportion of time with an adverse impact on the delivery of the approved programme, the General Manager's approval is formally required before the task is added to the internal audit programme.

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Where management is aware of specific concerns with a process being audited, a request is made to the internal auditor to provide assurance and/or advice as required if the matter is not adequately covered in the internal audit plan/report. The opportunity for management to request for specific internal audit input occurs at the commencement of each audit when the review plan is prepared and at the end of each audit when the review results are discussed with management.

In the same way, at the commencement of every review, all internal audit review plans are submitted to the Audit and Risk Management Committee for consideration. Internal audit review reports are also submitted to the ARMC for their input and consideration. The ARMC utilises these opportunities to highlight specific issues of concern on which they require additional assurance and/or information.

The proposed internal audit programme shows an estimated time allocation to each of the tasks identified. It should be noted that this time estimation is only a guide and that as noted above, depending on the circumstances around each and every audit task, some tasks will be completed in a very short space of time while others may take long to complete. For an example, where an initial test sample indicates an exception, it may be necessary to increase the sample size in order to establish whether the exception is a sign of a general process weakness or just a once off error which may not be recurring.

Assurance Framework

In order for the ARMC to effectively discharge its duty as defined in the ARMC Charter, appropriate information should be provided on a regular basis. The ARMC gets information through a number of ways. Members of the ARMC receive reports and presentations from management including visits to various Council projects and sites. The Internal Auditor prepares reports which give insight and/or assurance on various matters. In some cases, internal audit reports focus on providing advice aimed at enhancing performance and attainment of organisational objectives. The ARMC also considers the external auditor's management letter and a presentation on the process and outcome of the annual audit of the council's financial statements.

REGULAR MANAGEMENT REPORTS AND PRESENTATIONS TO THE ARMC

| Report Topic | Responsibility | Target Completion Date |
|--|---|---|
| <p>1) Compliance</p> <ul style="list-style-type: none"> ▪ Submit an annual management report to the Committee which gives assurance that the Council framework for compliance with major legislative requirements is in place and operating effectively. For example, a management report that all items listed on the Office of Local Government Calendar of Compliance were resolved as appropriate. | Executive Manager Governance and Internal Control | <ul style="list-style-type: none"> • ARMC Meeting - September Annually |

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| Report Topic | Responsibility | Target Completion Date |
|--|---|---|
| <ul style="list-style-type: none"> ▪ A bi-annual exceptions report on any areas of major non-compliance with legislation or policy requirements binding the Council. | | <ul style="list-style-type: none"> • By date required as specified within the Local Government Act. |
| <p>2) Risk management,</p> <ul style="list-style-type: none"> ▪ Corporate risks register. This can be a standing item on the agenda for all meetings. Highlight key changes as and when there are significant changes to the corporate risks. ▪ Presentations by divisional directors on key risks and related risk mitigation strategies for their divisions. The presentations can be spread throughout the year such that only one director will make a presentation at each meeting. ▪ Ad hoc management reports on risk management framework for selected processes based on feedback from the Committee arising from consideration of other information provided to the Committee. | Executive Manager Governance and Internal Control | <ul style="list-style-type: none"> • Corporate risk register to be presented to all ARMC meetings from 2018 including highlights of any changes to corporate risks. • One annual presentation from each Divisional Director highlighting key risks and risk management framework. |
| <p>3) Fraud control,</p> <ul style="list-style-type: none"> ▪ Annual review of the fraud management policy. ▪ Bi-annual review of management feedback on fraud risk management framework. ▪ Management feedback should highlight any significant incidences. ▪ Major changes in risk profile. | Manager Financial Services/ Executive Manager Governance and Internal Control | <ul style="list-style-type: none"> • ARMC Meeting – November annually. |
| <p>4) Financial management,</p> <ul style="list-style-type: none"> ▪ Consider quarterly budget review reports. ▪ Consider quarterly investment reports. | Director Corporate Services | <ul style="list-style-type: none"> • By date required as specified within the Local Government Act. |
| <p>5) Governance,</p> <ul style="list-style-type: none"> ▪ Review relevant risk registers and consider risk mitigation strategies in place. | Executive Manager Governance and Internal Control | <ul style="list-style-type: none"> • Once every 3 years • Ad hoc as the governance framework changes. |
| <p>6) Implementation of strategic plan,</p> | Director Planning | <ul style="list-style-type: none"> • By date required |

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| Report Topic | Responsibility | Target Completion Date |
|--|--|--|
| <ul style="list-style-type: none"> ▪ Quarterly reporting on performance management and key performance indicators. | and Environmental Services | as specified within the Local Government Act. |
| 7) Delivery program and strategies, <ul style="list-style-type: none"> ▪ Quarterly reporting on performance management and key performance indicators. | Director Planning and Environmental Services | <ul style="list-style-type: none"> • By date required as specified within the Local Government Act. |
| 8) Service reviews, <ul style="list-style-type: none"> ▪ Ad hoc reports on service delivery reviews and related risk mitigation or performance improvement strategies. | Transition Project Leader | <ul style="list-style-type: none"> • Ad hoc |
| 9) Collection of performance measurement data by the council, <ul style="list-style-type: none"> ▪ Consider performance measurement reports on a bi-annual basis and recommend opportunities for improvement to the framework where necessary. | Director Corporate Services | <ul style="list-style-type: none"> • By date required as specified within the Local Government Act. |
| 10) Any other matters prescribed by the regulations. | Ad hoc | On-going |

SUMMARY

The current internal audit programme was prepared based on the risk registers for the former Dubbo City Council. An updated internal audit programme will be prepared once a comprehensive risk assessment for the Dubbo Regional Council has been completed. The completed tasks on the programme include the following, Cash receipting processes review, creditors transactions and other ad hoc tasks such as the BOD Alliance internal audit quality assurance review. At the time of preparing this report, the audit of rates and charges transactions and event management processes was in progress. The audit of project management processes and data integrity remained outstanding. The position is that the Council has recently engaged a contractor to manage Council's project management processes and an audit of this process will be carried out in due course once the new process has been fully implemented. At the time of preparing this report, work was in progress to develop a review scope and identify an external consultant to assist with the completion of the data integrity audit testing.

Appendices:

[1](#) Internal Audit Programme July 2017 - July 2019

Dubbo Regional Council
List of audit topics universe considered in preparing the (2017-2019) 3 Year Internal Audit Programme

| AUDIT UNIVERSE TOPICS |
|---|
| Grants |
| Governance health check |
| GST Compliance/ FB Tax |
| Land purchases, development, sales |
| Leisure/aquatic centres & Museum/ Art Gallery /Cultural Centre |
| Library Systems (accounting) |
| Human resources, Payroll Management, including data integrity, Time Recording, Leave Management, Termination payments |
| Petty Cash |
| Procurement/ Purchasing/ contract management |
| Project Management incl variation authorisations, documentation, recording & reporting |
| Rates |
| Regulation / Compliance / Fines/ Parking fines |
| Risk register including validation of controls |
| S94 Contributions |
| Tender Processes / System |
| Trust account management |
| Accounts payable data analytics and EFT Payments review |
| Fixed Assets |
| Fraud control health check |
| Fee for service transactions (Local Government Act 1993 Section 608) |
| Waste Management |
| Child care centres, cash handling, gifts, follow up on outcomes from statutory audits |
| Events management |
| Accounts receivable |
| General ledger control processes |
| Investments |
| Budgetary control process |
| Performance management process |
| Development applications process |
| Section 64 contributions |
| IT processes & business continuity planning |
| Occupation and building certificates |
| Revenue receipting and cash handling processes |

| Nature of Risk | INHERENT RISK | | | RESIDUAL RISK | | | | ENTERPRISE RISK | |
|---------------------------|---|-------|-----------------|--|-------|----------------|--------|-----------------|----------------|
| | Risk Description | C/L** | Original Rating | Existing Controls | C/L** | Current Rating | Accept | C/L** | Current Rating |
| Public Liability | Air strike by birds and other foreign objects | 25/25 | Extreme | Aerodrome Manual - section on bird strikes, Inspections for FOD's | 25/25 | Extreme | Yes | 24/25 | Extreme |
| Information Technology | No integrated management system for WHS, HR results in duplication, opportunity for errors, resource of untimely data etc hungry, provision | 20/25 | High | Currently investigating solutions (Due December 2015) | 20/25 | High | No | 20/25 | High |
| Business Activities | Development works increasing public open spaces for additional maintenance | 23/25 | Extreme | Prioritising work External contractors Increased staff levels Reduction in service level Phase up additional funding | 23/25 | Extreme | Yes | 20/25 | High |
| Natural Hazards | Flooding | 23/25 | Extreme | Business Continuity Plans Infrastructure design to mitigate flooding effects Restricted asset for flooding events | 20/25 | High | Yes | 20/25 | High |
| Public Liability | Insufficient resources to undertake all Statutory obligations (e.g. Awnings, Fire Safety Statements, Boarding Houses, Pools, etc.). | 25/25 | Extreme | Inspection/approvals regime Risk identification Staffing levels Prioritisation of work Insurances Professionalism of staff | 21/25 | High | No | 21/25 | High |
| Business Activities | Documents Council staff producing not recorded and allocated into TRIM (records management system) | 23/25 | Extreme | Corporate Issue Policy & Procedures Training | 21/25 | High | No | 21/25 | High |
| Business Activities | Incorrect operator input into TRIM system | 21/25 | High | Corporate Issue | 21/25 | High | No | 21/25 | High |
| Business Activities | Information that should be in TRIM is not captured or recorded | 21/25 | High | Corporate Issue Escalation processes | 21/25 | High | No | 21/25 | High |
| WHS | Non-compliance of WHS Legislation | 25/25 | Extreme | Staff Training WHS Advisor Policy procedure External WHS Audit (Completed by December 2014) Internal Audits Safety Systems Development Plan | 22/25 | High | No | 21/25 | High |
| WHS | Lack of commitment by workers to WHS Requirements | 25/25 | Extreme | Staff Training WHS Advisor Policy procedure External WHS Audit (Completed by December 2014) Internal Audits Safety Systems Development Plan | 24/25 | Extreme | No | 21/25 | High |
| Financial/ infrastructure | Inadequate infrastructure for stormwater management | 23/25 | Extreme | Insufficient funding - submission for additional funding dependent on Asset Management Plan completion - expected June 2015 | 23/25 | Extreme | No | 21/25 | High |

| | | | | | | | | | |
|------------------|---|-------|---------|---|-------|---------|-----|-------|------|
| Financial | Potential financial impact of changing guidelines from the Natural Disaster Relief Funding arrangements | 21/25 | High | None | 21/25 | High | Yes | 21/25 | High |
| Public Liability | Council staff - Incorrect or lack of use of radio frequency by Council staff - leading to collision of aircraft - damage and injury | 24/25 | Extreme | Monitoring Investigation of breaches and reporting to ATSB | 24/25 | Extreme | No | 22/25 | High |
| WHS | Safety concerns with respect to Caravan Park Swimming Pool | 25/25 | Extreme | Maintenance programme of pool Signage Inspections and water testing Australian Standards compliance Pool adjacent to office Fencing and anti-slip paving | 22/25 | High | No | 22/25 | High |
| Public Liability | Fires as a result of slashing on road verges/grinders/welders | 25/25 | Extreme | WHS System SOPS/SWMS PPE | 22/25 | High | No | 22/25 | High |
| WHS | HAZMAT (asbestos) exposures when delivered by customers to Waste Depot | 22/25 | High | Screening at weigh-bridge Inspections Specific location HAZMAT - specific location Training of staff WHS System | 22/25 | High | No | 22/25 | High |
| WHS | Personal Safety - site visits - working within the road network | 25/25 | Extreme | WHS System PPE SOPS & SWIMS completed by June 2015 | 22/25 | High | No | 22/25 | High |

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REPORT: INTERNAL AUDIT REVIEW PLAN - EVENTS MANAGEMENT PROCESS

AUTHOR: Internal Auditor
REPORT DATE: 23 August 2018
TRIM REFERENCE: ID18/1338

EXECUTIVE SUMMARY

The Council events management process includes events hosted by the Council and events facilitated by the Council but hosted by third party organisations. The Council Marketing, Events and Partnerships Team is responsible for sourcing events which promote economic activity in the local government area. The team is also responsible for facilitating the hosting of events by third party organisers. The role of the Marketing, Events and Partnerships Team is mainly that of a facilitator and the host is responsible for the task of administering detailed requirements for hosting the events. Where the event is hosted by a third party at a private location, the risk to Council is generally not significant. Where an event is held at a Council owned facility, the Council is liable for risks such as the security of the facility and public liability. In addition, events hosted by the Council also expose the Council to financial risks where there is a limited budget to fund the event. In all cases, the Council might also be exposed to reputation risks depending on the outcome of the event.

The Council Marketing, Events and Partnerships Team does not host any event. The events hosted by Council are coordinated and managed by the Council Branch responsible for the asset where the event is hosted. The Council Branches where most of the Council hosted events are managed are shown in the table included in **Appendix 1**.

No risk issues of concern arising from an assessment of the progress reports on each of the key performance indicators and the related budget variances came to the attention of the Internal Auditor. This report recommends that the Chief Executive Officer and the Audit and Risk Management Committee approve that the audit of events management processes across the Council be considered complete on the basis of the Internal Auditor's preliminary findings and opinion regarding the risk management environment.

ORGANISATIONAL VALUES

Customer Focused: The strategic objective of the Council's internal audit function is to provide a consultancy service to management which focuses on providing insight on key risk issues and generating effective solutions to enhance the risk management framework. Enriched risk management processes improve efficiency and effectiveness in the attainment of service delivery promises to the Council's customers.

Integrity: A robust internal audit function supports the integrity of Council within the community.

One Team: The internal audit function supports cohesion and cooperation to minimise risk and improve the delivery of services to the community.

AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018

AUD18/35

FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

POLICY IMPLICATIONS

There are no policy implications arising from this report.

RECOMMENDATION

That the information contained within the report of the Internal Auditor dated 23 August 2018 be noted.

Shephard Shambira
Internal Auditor

AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018

AUD18/35

REPORT

No risk issues of concern arising from an assessment of the progress reports on each of the key performance indicators and the related budget variances came to the attention of the Internal Auditor. This report recommends that the Chief Executive Officer and the Audit and Risk Management Committee approve that the audit of events management processes across the Council be considered complete on the basis of the Internal Auditor's preliminary findings and opinion regarding the risk management environment. Further details are provided within the events management process review as attached as **Appendix 1**.

Appendices:

[1](#) Events Management process review

SUBJECT: Internal Audit Review Plan – Events Management Process

TO: The General Manager & The Audit And Risk Management Committee

FROM: Internal Auditor

DATE: 8 May 2018

FILE:

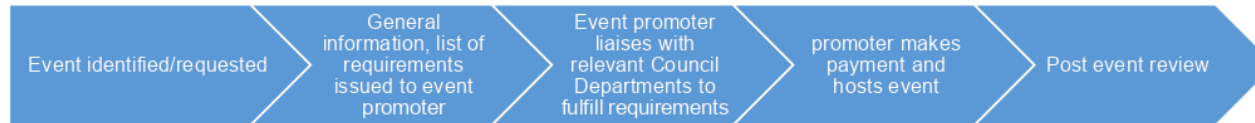
Background

The Council events management process includes events hosted by the Council and events facilitated by the Council but hosted by third party organisations. The Council Marketing, Events and Partnerships Team is responsible for sourcing events which promote economic activity in the local government area. The team is also responsible for facilitating the hosting of events by third party organisers. The role of the Marketing, Events and Partnerships Team is mainly that of a facilitator and the host is responsible for the task of administering detailed requirements for hosting the events. Where the event is hosted by a third party at a private location, the risk to Council is generally not significant. Where an event is held at a Council owned facility, the Council is liable for risks such as the security of the facility and public liability. In addition, events hosted by the Council also expose the Council to financial risks where there is a limited budget to fund the event. In all cases, the Council might also be exposed to reputation risks depending on the outcome of the event.

The Internal Auditor was advised that the Council has an arrangement in place to ensure that the public liability insurance cover for small events is included under the Council's insurance policy. Organisers of big events are required to supply evidence of \$20 million public liability insurance cover as a part of the conditions for hosting certain events. An audit of the risk management framework around this aspect is included with the review of the various business processes where these events are held. For an example, the audit of activities of the Dubbo Regional Theatre and Convention Centre included an assessment of compliance with requirements for public liability insurance cover and financial risks.

The Council Marketing, Events and Partnerships Team does not host any event. The events hosted by Council are coordinated and managed by the Council Branch responsible for the asset where the event is hosted. The Council Branches where most of the Council hosted events are managed are shown in the table below.

| | |
|---|--|
| Council Marketing department sources events or provides support to organisers seeking to host an event in the local government area. | |
| Events hosted by a third party | Council involvement |
| <ul style="list-style-type: none"> • entities hiring a Council facility to host events | <ul style="list-style-type: none"> • Providing information and checklists • Approving event to be hosted on Council facility • Regulatory function where required |
| <ul style="list-style-type: none"> • entities hosting event on private location | <ul style="list-style-type: none"> • Council provides promoter with general information on requirements and City data • Regulatory function where required |
| Events hosted by Council | |
| Council Operations which host events include: | Key event management risk considerations |
| <ul style="list-style-type: none"> • Dubbo Regional Theatre and Convention Centre • Dubbo Aquatic and Leisure Centre • Old Dubbo Gaol • Western Plains Cultural Centre • Dubbo Showground • Dubbo Visitors Information Centre • Recreation and Open Space • Mayoral/Council functions | <ul style="list-style-type: none"> • Public liability insurance related risks <ul style="list-style-type: none"> ○ Risk of injury and ○ risk of destruction of property. • Financial risk where the Council promotes an event and expects to achieve a surplus, and where the cost of hosting an event should not exceed the allocated budget vote. • Reputation risk where any negative attributes of an event might be associated with the Council |



The Dubbo Regional Council Operational Plan for 2017-2018 section 5.6 identifies *City Development* as a principal activity, supported by the Marketing, Events and Partnerships Team function. The objective of the function is:

To provide an effective and efficient destination marketing, corporate communications and destination information services in a professional manner.

The Operational Plan notes that this functional objective is to be achieved through a number of activities including *Events Attraction, Promotion and Support*. The Operational Plan identifies the following actions and performance targets in respect of *Events Attraction, Promotion and Support*. The table below shows the actions and performance targets/service levels as set out in the Operational plan and an update provided as at the end of the March 2018 quarter.

| Actions | Performance targets/Service Level | Progress update – Manager Business Support Comments as at April 2018 |
|--|---|---|
| Implement event attraction activities and projects as identified in the Economic Development Strategy and Action Plan. | All identified Events projects delivered on time and budget. | <i>The Event Strategy is to be integrated into the Regional Economic Development Action Plan to be completed by February 2018. Actions regarding event development are continuing to be completed.</i> <ul style="list-style-type: none"> • <i>Event Network Meeting held</i> • <i>2 event bids submitted</i> • <i>Targeted marketing campaign – conferences</i> • <i>37 events provided high level support</i> • <i>Stream 1 of the Event Development Fund and Major Event Sponsor Program opened.</i> • <i>Stream 2 of the Event Development Fund and Major Event Sponsor Program resulted in 13 not-for-profit events sharing \$69,700. These events combined will return some \$4M to the LGA in 2018.</i> • <i>Bid successful – 2018 NSW Aboriginal Rugby League Knockout</i> |
| Implement event support and promotion program including event network and what's on activities. | All major Events across Local Government Area provided with appropriate level of support and promotion. | <i>This is being achieved. Event network events held and what's on activities provided weekly.</i> |
| Implement Event funding program including Event Development Fund and | All funds provided by June 2018 in line with Financial and | <i>This is being achieved. Opportunities for assistance under Stream 1 of the Event Development</i> |

| | | |
|---------------------------|---------------------------|--|
| Major Event Sponsor Fund. | Inkind Assistance Policy. | <i>Fund and Major Event Sponsor Fund remain open. Stream 2 now closed.</i> |
|---------------------------|---------------------------|--|

The budget position in respect of the events management aspect of the Council Marketing, Events and Partnerships Team function is shown in the table below.

| Project | 2017/2018 Amount | Budget | Actuals as at 31 March |
|-----------------------------------|------------------|--------|------------------------|
| Events Attraction | \$10,000 | | \$2,388 |
| Event Development Stream 1 | \$17,500 | | \$10,340 |
| Event Development Stream 2 | \$30,000 | | \$25,000 |
| Major Events Sponsorship Stream 1 | \$25,000 | | \$9,586 |
| Major Events Sponsorship Stream 2 | \$60,000 | | \$35,700 |
| Travel & Sustenance | \$2,000 | | 0 |
| Dream Festival | \$40,000 | | \$40,000 |
| TOTAL | \$184,500 | | \$123,014 |

An overall favourable budget variance of 8% does not appear to be material in the scheme of Council operations.

The Operational Plan 2017-2018 also includes key performance indicators regarding the “number of event bids submitted/supported”, and “number of events assisted”. The “number of event bids submitted/supported” indicates events that have been approached in order to attract them to Dubbo (not events that approach us year on year). The “number of events assisted” refers to events provided support via marketing, promotion, tool kit resources, funding etc. The table below summarises the relevant statistics.

| Workload | Prev. | Est. | YTD |
|--|--------------|-------------|------------|
| Number of event bids submitted/supported | 6 | 6 | 6 |
| Number of events assisted | 50 | 50 | 38 |

Risk Considerations

The key risk considerations with the events management process include the following:

1. Council rights and obligations.
 - a. Ensuring that Council organised events comply with all the necessary requirements.
 - b. Ensuring that third party events receiving Council donations satisfy set criteria.
 - c. Ensuring that events organised or hosted by the Council are covered by appropriate public liability insurance and or other general insurance cover as necessary for each event.

2. Accuracy of transaction amounts. Ensuring that the amounts paid are correct and accurate.
3. Compliance with legislative requirements
 - a. For an example, ensuring that events which require Council regulatory approval are identified and assessed as appropriate.
 - b. Ensuring that event organisers are informed and set to comply with traffic management, alcohol control, public health requirements and other risk management considerations.
 - c. Public liability obligations
4. Ensuring that the Council infrastructure and facilities utilised in hosting events is safeguarded and protected.
5. Ensuring that events associated with the Council are properly run to ensure that the Council's reputation is safeguarded.

Preliminary Findings

The Operational Plan key performance indicators and strategic objectives for the events management process are shown above. No risk issues of concern arising from an assessment of the progress reports on each of the key performance indicators and the related budget variances came to the attention of the Internal Auditor.

Recommendation

That the Chief Executive Officer and the Audit & Risk Management Committee approve that the audit of events management processes across the Council be considered complete on the basis of the Internal Auditor's preliminary findings and opinion regarding the risk management environment.

Shephard Shambira
Internal Auditor
ss

AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018

AUD18/36



REPORT: ARMC Action List as at September 2018

AUTHOR: Executive Manager Governance and
Internal Control
REPORT DATE: 27 August 2018
TRIM REFERENCE: ID18/1341

EXECUTIVE SUMMARY

The Audit and Risk Management Committee (ARMC) of Dubbo Regional Council requires monitoring implementation of its resolutions and agreed action plans. The Committee is required to be updated with details of implementation of recommendations and action plans arising from internal audit reviews and other activities initiated or considered by the Committee. Where action is deferred to a future date, the item is listed on the ARMC Action List until it has been resolved.

The ARMC Action List is in three parts. The first part shows a list of regular reports to the Committee. These are reports which the Committee require on an on-going basis. This can be once a year or once every quarter. There is no fixed completion date for such items. The second class of action items relate to action items which arise from Committee requests which have a set completion date. The third class of items relates to actions arising from internal audit review reports. Agreed management action plans in response to internal audit recommendations and findings are included on the ARMC Action List and deleted once the Committee has been provided with assurance that the issue has been resolved.

ORGANISATIONAL VALUES

Customer Focused: The strategic objective of the Council's internal audit function is to provide a consultancy service to management which focuses on providing insight on key risk issues and generating effective solutions to enhance the risk management framework. Enriched risk management processes improve efficiency and effectiveness in the attainment of service delivery promises to the Council's customers.

Integrity: A robust internal audit function supports the integrity of Council within the community.

One Team: The internal audit function supports cohesion and cooperation to minimise risk and improve the delivery of services to the community.

FINANCIAL IMPLICATIONS

There are no financial implications arising from this report.

AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018

AUD18/36

POLICY IMPLICATIONS

There are no policy implications arising from this report.

RECOMMENDATION

1. That the information contained in the report of the Executive Manager Governance and Internal Control dated 27 August 2018 be noted.
2. That all items marked as completed be deleted from the list.

Michael Ferguson

Executive Manager Governance and Internal Control

AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018

AUD18/36

BACKGROUND

Where an issue has been raised by the Committee or through findings of the Internal Auditor or other assurance service providers providing information to the ARMC, it is important for the Committee to be advised of the action taken to resolve such matters. The ARMC Action List is a tool which enables the Committee to monitor the progress of implementation of the recommendations and in ensuring that outstanding matters are resolved satisfactorily.

REPORT

The detailed ARMC Action List as at September 2018 is attached (**Appendix 1**) to this report.

SUMMARY

Refer to **Appendix 1** for a summary of the action plans and related progress reports.

Appendices:

[1](#) ARMC Action List as at September 2018

REPORT**Audit and Risk Management Committee (ARMC) Action List as at September 2018.****1. Action/Information/Reports requested by the ARMC - REGULAR REPORTS**

| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
|---|--|---|--|---|
| <i>Action item 2014-317/10/14</i> | That the Chief Executive Officer be requested liaise with the Chairman Audit and Risk Management Committee in respect of dates for meetings of the Committee in March/ June/ August/ October 2018. | Chief Executive Officer/ ARMC Chairperson | Correspondence close off To be advised by March 2018. | Proposed schedule: Special meeting to consider 2017 Financial Statements 19 February 2018 13 March 2018 – 11am 15 June 2018 – 11am 7 September 2018 – 11am 14 December 2018 – 11am |
| <i>Action item 2014-05 6/6/14</i> | That the Institute of Internal Auditors of Australia Audit Committee members training course be offered to all members of the BOD Alliance Audit and Risk | Chief Executive Officer | Ongoing | Internal Auditor attended the Local Government Internal Audit Conference in November 2017. Future opportunities will be identified and advised to members. |

| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
|---|--|----------------|------------------------|--|
| | Management Committees. | | | |
| <i>Action item 2016-513/12/16</i> | <ol style="list-style-type: none"> 1. That the committee amend the standing Agenda template for the ARMC to align with the list of key results areas identified in the new legislation. 2. That in addition to an Internal Audit programme, a regular management reporting timetable is established which ensures that the Committee considers information as necessary to accomplish its objectives as stated in the proposed section 428A of the amended | ARMC Chair | On-going | Pending assent to new legislation. Key result areas for the ARMC are listed below for the Committee's reference. Related agenda items and expected delivery dates are also listed below. A status report is shown against each agenda item. |

| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
|--|--|----------------|------------------------|--|
| | legislation with no action to be taken until section 428(A) comes into effect. | | | |
| <p>ARMC Purpose (As stated in the ARMC Charter)</p> <p><i>The proposed changes to legislation note that the Audit and Risk Management Committee (ARMC) will be called the Audit, Risk and Improvement Committee (ARIC). That the ARMC is an independent advisory Committee assisting the Council to fulfil its risk management, governance, process improvement and oversight responsibilities. The primary duties and responsibilities of the ARMC are to assist the Council to discharge its responsibilities relating to:</i></p> <ul style="list-style-type: none"> <i>1.1. Financial reporting process</i> <i>1.2. Business ethics, policies and practices</i> <i>1.3. Management and internal controls</i> <i>1.4. Monitoring the integrity of the Council's financial reporting practices and finance and accounting compliance</i> <i>1.5. Reviewing internal controls, key corporate risks and all audit related matters</i> <i>1.6. Encouraging continuous improvement of Council's systems and practices</i> <i>1.7. Service reviews</i> <i>1.8. Adoption of the Internal Audit Plan</i> <i>1.9. The Council's process for monitoring compliance with policies, laws and regulations and the Council code of conduct.</i> | | | | |

| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
|---|---|--|--|---|
| <p>The Committee will achieve the above purpose by reviewing regular reports from internal audit and external auditors. In addition, the Committee will also consider various reports and presentations from management as stated below.</p> | | | | |
| <p>1) Compliance</p> <ul style="list-style-type: none"> ▪ Submit an annual management report to the Committee which gives assurance that the Council framework for compliance with major legislative requirements is in place and operating effectively. ▪ For an example, a management report that all items listed on the Office of Local Government Calendar of Compliance were resolved as appropriate. ▪ A bi-annual exceptions report on any areas of major non-compliance with legislation or policy requirements binding the Council. | | <p>Executive Manager Governance and Internal Control</p> | <ul style="list-style-type: none"> • ARMC Meeting - September Annually • ARMC Meeting – March annually | <ul style="list-style-type: none"> • No major non-compliance with legislation or policy identified. <p>Formal reporting format under development to be presented in December 2018.</p> |
| <p>2) Risk management,</p> <ul style="list-style-type: none"> ▪ Corporate risks register. This can be a standing item on the agenda for all meetings. Highlight key changes as and when there are significant changes to the corporate risks. ▪ Presentations by divisional directors on key risks and related risk mitigation strategies for their divisions. The presentations can be spread throughout the year such that only one director will make a presentation at each meeting. ▪ Ad hoc management reports on risk management | | <p>Executive Manager Governance and Internal Control</p> | <ul style="list-style-type: none"> • Corporate risk register to be presented to all ARMC meetings including highlights of any changes to corporate risks. • One annual presentation from each Divisional Director highlighting key risks and risk management | <p>Council has engaged Jardine Consulting Services to facilitate the review of its risk registers. This is 80% complete with several high risk functions remaining including Wellington Caves and Bodangora Airstrip. To be completed by December</p> |

| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
|---|--|--|---|--|
| | framework for selected processes based on feedback from the Committee arising from consideration of other information provided to the Committee. | | framework. | 2018 |
| 3) Fraud control, | <ul style="list-style-type: none"> ▪ Annual review of the fraud management policy ▪ Bi-annual review of management feedback on fraud risk management framework. ▪ Management feedback should highlight any significant incidences. ▪ Major changes in risk profile | Chief Financial Officer/ Executive Manager Governance and Internal Control | <ul style="list-style-type: none"> • ARMC Meeting – June annually • ARMC Meeting – November annually | Council's Internal Ombudsman has commenced drafting the Fraud Management Policy based on the model Fraud Management Policy provided by the Audit Office. This will be completed following recruitment of the Internal Auditor position and Risk Advisor. |
| 4) Financial management, | <ul style="list-style-type: none"> ▪ Consider quarterly budget review reports ▪ Consider quarterly investment reports | Chief Financial Officer | Quarterly at each ARMC meeting | Meeting schedules to be redefined as new legislation is enacted. |
| 5) Governance, | <ul style="list-style-type: none"> ▪ Review relevant risk registers and consider risk mitigation strategies in place | Executive Manager Governance and Internal Control | <ul style="list-style-type: none"> • Once every 3 years • Ad hoc as the governance framework changes. | Council has engaged Jardine Consulting Services to facilitate the review of its risk registers. |

| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
|--|---|-----------------------------------|-------------------------------------|---|
| | | | | This is 80% complete with several high risk functions remaining including Wellington Caves and Bodangora Airstrip. To be completed by December 2018 |
| 6) Implementation of strategic plan, ▪ Quarterly reporting on performance management and key performance indicators. | | Chief Financial Officer | • Quarterly | Meeting schedules to be redefined as new legislation is enacted |
| 7) Delivery program and strategies, ▪ Quarterly reporting on performance management and key performance indicators. | | Director Planning and Environment | • Bi-annually | A new Delivery Program commenced 1 July 2018 for Dubbo Regional Council as per the proclamation. |
| 8) Service reviews, ▪ Ad hoc reports on service delivery reviews and related risk mitigation or performance improvement strategies | | Transformation Leader | • Ad hoc | Through the creation of the Executive Services team and recruitment of the Internal Ombudsman, a program for service delivery reviews is currently under development. |
| 9) Collection of performance measurement data by the council, | | Chief Financial Officer | • Half yearly – March and September | Meeting schedules to be redefined as new |

| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
|---|---|----------------|------------------------|--|
| | <ul style="list-style-type: none"> ▪ Consider performance measurement reports on a bi-annual basis and recommend opportunities for improvement to the framework where necessary. | | | legislation is enacted. |
| 10) Any other matters prescribed by the regulations. | | Ad hoc | On-going | |

| 2. Action/Information/Reports requested by the ARMC - FIXED COMPLETION DATE | | | | |
|---|--|-------------------------|------------------------|---|
| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
| <i>Action item 2013-52 2/03/13</i> | <ol style="list-style-type: none"> 1. That a quarterly report on Council Payments and Contract Variations be provided to subsequent meetings of the Audit and Risk Management Committee 2. With effect from 1/9/2017. That future reports to the Committee in respect | Chief Financial Officer | Quarterly | For the 2018 financial year to 27 August 2018 there were 15 contracts that have been finalised. There were 14 contracts where the original contract value was exceeded. |

| 2. Action/Information/Reports requested by the ARMC - FIXED COMPLETION DATE | | | | |
|---|---|-------------------------|------------------------|---|
| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
| | of contracts where the original contract value has been exceeded contain advice as to whether the necessary variation payment process has been followed. | | | |
| <i>Action Item 2014-1 17/03/14</i> | 1. That a status report on The progress of implementation of recommendations of the ICAC's Operation Jarek be submitted to the next meeting of the Audit and Risk Management Committee. 2. That recommendations marked as completed be deleted from future reports and a narrative provided for only those | Chief Financial Officer | On-going | Actions still outstanding that will be reviewed by Corporate Procurement when the team is fully staffed. 1. That Council develop a proactive and comprehensive supplier engagement framework. 2. That Council review which reports are available to the |

| 2. Action/Information/Reports requested by the ARMC - FIXED COMPLETION DATE | | | | |
|---|---|-------------------------|------------------------|--|
| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
| | items being updated. 3. Resolved on 13/12/16, that Action Items 3,4,5,6,12 13 and 14 as contained in the report, have been completed and can be removed from future reports. | | | managers of stores and ensure they can generate a report showing the orders placed by any individual across all cost centres. Action to date: Report has been created 3. That Council analyse inventory management systems with a view to improving controls and reducing waste. Action to date: Overview of stores is completed and actions have commenced |
| Action Item 2014-6 17/10/14 | Council payments and contracts variations: 1. That future reports with regard to Council payments and contract variations include a | Chief Financial Officer | Quarterly | There was 7 supplier paid a total of over \$150,000 for materials and services in the 2018 financial year to date that had no contract in place. |

| 2. Action/Information/Reports requested by the ARMC - FIXED COMPLETION DATE | | | | |
|---|--|---|------------------------|--|
| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
| | breakup by Division of: Number of creditors paid \$150,000 or more for materials. Number of contracts where original contact value was exceeded. 2. That a further report be presented to the Audit and Risk Management Committee including outcomes to address those creditors identified as exceeding \$150,000 in a financial year | | | |
| <i>Action item 2017-021/06/17</i> | Risk registers That the Chief Executive Officer be requested to prepare a report to the March 2018 meeting of the Audit, Risk and Improvements Committee regarding the updated organisation risk | Executive Manager Governance and Internal Control | March 2018 | Council has engaged Jardine Consulting Services to facilitate the review of its risk registers. This is 80% complete with several high risk functions remaining including Wellington Caves and Bodangora Airstrip. To be |

| 2. Action/Information/Reports requested by the ARMC - FIXED COMPLETION DATE | | | | |
|---|--|--|------------------------|--|
| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
| | registers. | | | completed by December 2018 |
| <i>Action item 2017-0205/09/17</i> | Internal Audit Programme That the Chief Executive Officer be requested to hold discussions with the Chief Executive Officers of Bathurst Regional and Orange City Council's with a view to increasing the level of resources provided to the internal audit function. | Chief Executive Officer | December 2017 | The Chief Executive Officers met in January 2018. A joint presentation from the Chief Executive Officers will be presented pending the outcomes of the External Report of the Internal Audit Quality Assurance Review. |
| <i>Action item 2017-0405/09/17</i> | Cash Receipting Process – Wellington Caves That the Internal Auditor be requested to further review cash receipting at the Wellington Caves Operations for further advice to the Chief Executive Officer and | Internal Auditor/ Manager Visitor Experiences and Services | December 2018 | The point of sales system – Bepoz has now been implemented and now operational on site. Testing continues with reports, but full day transactions and banking now takes place through system. |

| 2. Action/Information/Reports requested by the ARMC - FIXED COMPLETION DATE | | | | |
|---|---|---|------------------------|--|
| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
| | Committee members. | | | |
| <i>Action item 2018-0713/03/18</i> | Internal Audit review report – Creditors Transactions That a report be presented to the next Audit and Risk Management Committee regarding resolving integration issues between three purchasing platforms. | Chief Financial Officer | December 2018 | Information Services enquiring from Civica the future development of Accounts Payable Workflow and investigating possible enhancements to Invoice Approval to be maintained by the same platform as On Line Requestions. |
| <i>Action item 2018-0813/03/18</i> | Audit & Risk Management Committee Charter That the draft Audit and Risk Management Committee Charter as attached to the report of the Executive Manager Governance and Internal Control dated 23 February 2018 be endorsed noting an amendment to the | Executive Manager Governance and Internal Control | June 2018 | Complete |

| 2. Action/Information/Reports requested by the ARMC - FIXED COMPLETION DATE | | | | |
|---|--|--|------------------------|--|
| Action item reference number and date initiated | Nature of outstanding action/information/report | Responsibility | Target Completion Date | Comment/Status report as at September 2018 |
| | composition to include the Mayor as a non-voting member and submitted to Council for consideration. | | | |
| <i>Action item 2018-0913/03/18</i> | Wellington Caves – Cash Receipting Process A further review will take place once the new Point of Sale system is installed and operational with the Internal Auditor to report back to the Audit and Risk Management Committee highlighting the improvements achieved. | Internal Auditor/Manager Visitor Experiences and Services | December 2018 | Target completion date expected to be met. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|--|---------------------------------------|---|-----------------------------------|---|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| s.94 Contributions process review | | | | | |
| <i>Action Item</i> 2011-02 5/4/2011 | Some developer contribution plans are overdue for a review. PRIORITY: HIGH | Update developer contributions plans. | December 2014 Original target date: June 2012 | Director Planning and Environment | <p>Preliminary report adopted by Council at the September 2015 meeting. Legislation not yet resolved. A further report was tabled to Council in September 2016.</p> <p>Section 94 Plan for Urban Roads and Car parking reviewed however development of the new Plan and capital works schedule delayed pending outcome of the RMS consideration of options for a third bridge over the Macquarie River.</p> <p>Revised Section 94 Plan for Open Space and Recreation Facilities adopted by Council on 22 June 2016 and commenced operation on 1</p> |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|-------|---------------|------------------------|----------------|--|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | | | | | <p>July 2016.</p> <p>Operational Review of Section 64 Policy for Water and Sewer underway. New Policy will not be commenced until 2018/2019.</p> <p>No further progress to date.</p> |
| Cash Receipting Process | | | | | |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|--|------------------------|---|---|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| <i>Action Item</i> 2017- 0605/9/2017 | Wellington Waste Transfer Station Revenue receipts summaries submitted to the Financial Services department not supported with copies of the primary receipting system reports. Incomplete banking may go undetected. | Ensure that revenue receipts summaries are supported with a copy of the relevant primary receipting system revenue reports. | 31 October 2017 | Manager Business Support – Technical Services | With the appointment of the new Manager he will embark on a project to review Council's policies, systems and procedures at all of Council's facilities in relation to standardise software and cash taking. Timing wise, this project is likely to commence in the later part of this year, probably September 2018 however there may be some processes we can consider in the shorter term to improve until we can embark on the full review. |
| <i>Action Item</i> 2017- 0705/9/2017 | Wellington Caves; Wellington Waste Transfer Station, Whylandra Waste Depot <i>Potential for incorrect refunds</i> | Recommendation Establish a process whereby all refund transactions as per the bank statement are reconciled with relevant supporting | December 2018 | Chief Financial Officer | A review is underway. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|--|------------------------|----------------|--------------------------------------|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | <p><i>going undetected.</i></p> <p>Comments</p> <p>❓ Council procedures do not allow the processing of cash out transactions at cash receipting sites.</p> <p>❓ Where a customer payment processed through the EFTPOS system is incorrect it is expected that a refund should be generated as necessary to correct any errors.</p> | <p>documents on a regular basis – for all remote receipting sites across Council.</p> <p>Agreed Management Action Plan</p> <p>1. Revenue Officer currently reconciles all refund transactions as per the bank statement with relevant supporting documents on a regular basis for all remote receipting sites across council</p> <p>2. A review of the automatic card validation process to which a refund is</p> | | | |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|--|---|------------------------|----------------|--------------------------------------|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | <p>Enquiries with staff who process EFTPOS transactions indicated that refund transactions do not necessarily involve an automatic validation of the details of the card to which a refund is processed. The details of a transaction which may be the subject of a refund are generally based on copies of official receipts.</p> | <p>processed and copies of official receipts details of a refund transaction.</p> | | | |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|--|--|------------------------|---|---|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| <i>Action Item</i> 2017- 0805/9/2017 | The use of different stand-alone software systems for different sites across the council might increase the operational costs associated with user training, IT support and licencing of different software systems. | Recommendation Evaluate the merits of introducing a standard cash receipting software package for use at stand-alone receipting sites across the whole Council. Agreed Management Action Plan Stakeholder meeting to be held to discuss possible actions and synergies. | 31 December 2017 | Chief Financial Officer | A review is underway with the implementation of BEPOZ being implemented for the Caves and in the Visitors Information Centres (by 1 July 2018). BEPOZ will be recommended to other sites requiring updating of Point of Sales systems. A review of the implementation will be complete after 12 months. |
| <i>Action Item</i> 2017- 0118/12/2017 | Wellington Caves Cash Receipting Process Review | | December 2018 | Internal Auditor/ Manager Visitor Experiences and Services | Update will be provided by action date. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|--|---|------------------------|----------------------------------|---|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| Creditors Transactions | | | | | |
| <i>Action item</i> 2018-0113/03/18 | Procurement transactions approval delegated authority limits Issue No information came to the attention of the Internal Auditor indicating that the Creditors team regularly reviewed and signed off on the exceptions report highlighting transactions where the purchase order amount is greater than the delegated authority limit. | Ensure that the exceptions report showing transactions where purchase order amounts exceed the delegated authority limit is reviewed and signed off on a regular basis. | June 2018 | Corporate Procurement Specialist | Review of report requirements underway. |
| <i>Action item</i> | "Self Audit" | 1. Ensure that the | December 2018 | Chief Financial Officer | Review of report requirements |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|---|------------------------|----------------|--------------------------------------|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| 2018-0213/03/18 | <p>Exceptions reports Issues</p> <p>1.) No evidence that the <i>Requisitions and Quotes Audit</i> exceptions report is reviewed was sighted during this review.</p> <p>2.) The structure of the <i>Requisitions and Quotes Audit</i> exceptions report does not isolate specific issues in a manner which makes it easier to review specific</p> | <p><i>Requisitions and Quotes Audit</i> report is reviewed by an appropriate official on a regular basis and document evidence of such review and follow up action taken.</p> <p>2. Consider breaking down the current <i>Requisitions and Quotes Audit</i> exceptions report into sections covering the following aspects:</p> | | | underway. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|---|------------------------|----------------|--------------------------------------|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | <p>potential transaction risks.</p> <p>Implications Incorrect transactions may go undetected, which can result in incorrect payments and/or a breach of the Council purchasing policy.</p> | <p>(a) Transactions where the number of quotations attached is less than the required based on (i) the requisition amount and</p> <p>(b) a separate section showing transactions based on (ii) the quotation amounts.</p> <p>(c) Transactions where the quotation amount exceeds the requisition amount and, the approved</p> | | | |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|-------|--|------------------------|----------------|--------------------------------------|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | | delegation for the officer who approved the purchase requisition is less than the quotation amount. (d) Transactions where the requisition amount is greater than the delegated authority limit for the officer who approved the transaction. Considering the results of the current internal audit enquiries, this report is | | | |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|--|--|------------------------|----------------------------------|---|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | | expected to show no transactions. Yet where there has been a manual intervention to facilitate the approval of unusual transactions, such transactions will be highlighted on this report. | | | |
| <i>Action item 2018-0313/03/18</i> | Creditors Paid more than \$150,000 within 2 years Breach of tendering guidelines and | Consider establishing a routine review of transactions with a cumulative value exceeding a limit closer to \$150,000, | June 2018 | Corporate Procurement Specialist | Review of report requirements underway. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|---|------------------------|----------------------------------|---|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | legislation | and review the nature of transactions to determine whether competitive procurement may be necessary. The report can be generated on a 24 months cycle or other shorter period as appropriate to ensure that competitive tendering decisions can be taken where necessary. | | | |
| <i>Action item 2018-0413/03/18</i> | Purchase Order and/or Goods Received Note amount less than | 1. Establish a regular report whereby all transactions for | June 2018 | Corporate Procurement Specialist | Review of report requirements underway. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|--|------------------------|-------------------------------------|---|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | <p>Invoice Amount Issue Allowing for the processing of invoices for which the transaction amount exceeds the approved purchase order amount is likely to result in a breach of delegated purchasing authority limits.</p> | <p>which the invoice amount processed is greater than the goods received amount and/or the purchasing authority limit. 2. Ensure that the exceptions report in recommendation (1) above is reviewed and signed off by an appropriate official on a regular basis.</p> | | | |
| <p><i>Action item 2018-0513/03/18</i></p> | <p>Vendor account changes issues and implications</p> | <p>1. Ensure that evidence of a review of the report on</p> | <p>June 2018</p> | <p>Manager Financial Operations</p> | <p>Action 1 - Review of report requirements underway. Action 2 - Follow up phone calls are made to customers</p> |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|--|------------------------|----------------|--|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | <p>1. Where a record has been reviewed but no notes or comments are added to the record, errors in such a review may go undetected.</p> <p>2. Where an existing supplier's details are amended without verifying the details of the amendment, improper changes to supplier bank details may go</p> | <p>amendment of bank details is entered in the notes section of the record at all times.</p> <p>2. Consider requesting for a confirmation of changes to bank details from regular suppliers. For an example, where a regular supplier has issued a notice to change bank details, follow up the request with a telephone confirmation or</p> | | | that have requested change of account details via email where here is not supporting Invoice (with account details) provided separately. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|---|------------------------|-------------------------|--------------------------------------|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | undetected. A recent incident based on similar procedures at Brisbane City Council is a relevant example of why it is necessary to verify requests to change bank details for existing suppliers. | e-mail to a known contact at the supplier, and record evidence of such confirmation against the relevant Council record. | | | |
| <i>Action item 2018-0613/03/18</i> | Online Requisitions System Issue and implications Sub-delegation of transaction approval authority without a formal | Consider establishing a procedure whereby the amendment of delegations is required to be signed off by an appropriate officer | December 2018 | Chief Financial Officer | No action to date. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|--|--|------------------------|-------------------------|---|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | letter confirming delegation of authority, can result in a breach of delegated authority limits. | other than the official sub-delegating their responsibility. | | | |
| <i>Action item 2018-0713/03/18</i> | <p>Purchase Requisition versus Purchase Order Amounts Issues</p> <p>1. Purchase orders which are not approved.</p> <p>2. Purchase order values exceeding original purchase requisition amounts.</p> | <p>1. Establish a routine report highlighting all purchase orders and requisitions pending approval. Take corrective action where the transactions have not been approved after a set time limit.</p> <p>2. Establish a routine report which highlights transactions</p> | December 2018 | Chief Financial Officer | Review of report requirements underway. |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|---|---|------------------------|----------------|--------------------------------------|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | <p>Implications Transactions processed on the basis of unapproved purchase orders can result in a breach of purchasing policy provisions such as delegated authority limits.</p> | <p>where a goods received note has been issued against an unapproved purchase order. Investigate and take appropriate corrective action on such transactions.</p> <p>3. Establish a routine report which highlights transactions where the goods received note value exceeds the approved purchase order value.</p> | | | |

| Internal Audit Recommendations Pending Implementation | | | | | |
|---|-------|--|------------------------|----------------|--------------------------------------|
| Action item reference number and date initiated | Issue | Agreed Action | Target Completion Date | Responsibility | Comment/Status report as at May 2018 |
| | | Investigate and take corrective action on all such transactions. | | | |

SUMMARY

The ARMC Action List is as shown in the table above. It is recommended that the information in the report be noted and that the Committee acknowledges that all items marked as completed be deleted from the list.

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**REPORT: Response to the Assurance
Report from the External Quality
Assessment of the BOD Internal Audit
Unit**

AUTHOR: Internal Auditor
REPORT DATE: 20 August 2018
TRIM REFERENCE: ID18/1326

EXECUTIVE SUMMARY

The Internal Auditor's opinion is that the overall assessment provided by the external reviewer shows a generally positive position considering the level of resourcing of the BOD (Bathurst Orange Dubbo) Internal Audit unit. The consultant's *Assurance report from the External Quality Assessment of the Internal Audit Unit* for the BOD Alliance member Councils, pages 4 to 13 show that the BOD Internal Audit Unit is assessed as colour code green which is a good rating. The areas where the consultant assigned a yellow colour code which indicates that there are opportunities for improvement are mainly areas where the current level of resourcing cannot be stretched to deliver more. For an example, while several aspects of IT audit issues have been addressed, IT audit is a specialist area which is constantly evolving with technological changes. None of the sections assessed were assigned with a red colour code.

The Internal Auditor notes that in comparison with the findings of a recent Commission of Enquiry into the banking sector, the BOD Alliance Internal Audit Quality Assurance Review report highlights some strengths in the Councils' risk management framework. For an example, the 3 Councils maintain an Audit and Risk Management Committee (ARMC) Action List which tracks all recommendations and requests by the Committee to ensure that they are properly implemented and that any issues are resolved and an update on the resolution is provided to the Committee. The Commonwealth Bank processes were found to be inadequate in ensuring that recommendations arising from internal audit reviews were properly implemented and followed up.

This report provides an explanation on how Council currently deals with some of the issues raised by the consultant in her recommendations. In some area, it is proposed that Council introduce additional procedures as suggested by the consultant.

Terms of reference

The BOD Alliance member Councils Audit and Risk Management Committees met at Orange City Council on 10 August 2018 to review the *Assurance report from the External Quality Assessment of the Internal Audit Unit* for the BOD Alliance member Councils. The report is at **Appendix 1**. This meeting requested the Internal Auditor to submit a report to each of the 3 Councils' ARMC meetings providing commentary and recommendations on issues raised in section 3 of the consultant's report.

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ORGANISATIONAL VALUES

Customer Focused: The strategic objective of the Council's internal audit function is to provide a consultancy service to management which focuses on providing insight on key risk issues and generating effective solutions to enhance the risk management framework. Enriched risk management processes improve efficiency and effectiveness in the attainment of service delivery promises to the Council's customers.

Integrity: A robust internal audit function supports the integrity of Council within the community.

One Team: The internal audit function supports cohesion and cooperation to minimise risk and improve the delivery of services to the community.

FINANCIAL IMPLICATIONS

This report proposes the engagement of external consultants which will require to be funded. The report also notes that the Council should allocate more resources to the internal audit function. The amounts relating to these proposals are still to be determined.

POLICY IMPLICATIONS

There are no policy implications arising from this report.

RECOMMENDATION

That the information contained within the report of the Internal Auditor dated 20 August 2018 be noted.

Shephard Shambira
Internal Auditor

BACKGROUND

The BOD Alliance member Councils engaged a consultant to carry out a quality assurance assessment review of the BOD Internal Audit Unit. The assessment provides assurance regarding the Councils' internal audit processes, resourcing, quality of work and reporting as measured against the Institute of Internal Auditors International Professional Practices Framework and Standards.

REPORT

Responses to Section 3 of the consultant's report – Opportunities for Improvement

Recommendation 3.1(a) – The internal audit charter should be enhanced to reflect changes to the "International Professional Practice Framework" Standard 1010.

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing must be recognized in the Internal Audit Charter.

Internal Auditor's Comment

The Council ARMC Charter is based on the Office of Local Government (OLG) template per *Internal Audit Guidelines* issued under section 23A of the *Local Government Act 1993 (NSW)*. These Guidelines are modelled in line with the IPPF framework.

It should be noted that the *Local Government Act 1993 (NSW)* was amended in August 2017 and that while this amendment will only be effective after receiving Royal Assent. The ARMC Action List has an action item where the Committee resolved that a review of the ARMC Charter be deferred until after promulgation of updated OLG *Internal Audit Guidelines*. At this stage, indications are that the OLG is likely to issue updated Guidelines for implementation soon after the next Council elections in 2020-2021.

RESPONSE

The Council reviews the Charter annually. The consultant's recommendation will be implemented at the next scheduled review of the ARMC Charter and the Internal Audit Activity Charter.

Recommendation 3.1(b) - Reference to Auditing and Assurance Standards Board (AUASB) Standards should be removed

RESPONSE

The consultant's comment relates to section 6.12 of the Council's *Internal Audit Activity Charter*. The *Internal Audit Activity Charter* is a management operational policy which defines the scope of internal audit and authority of the internal audit function and operational arrangements. The Council's *Internal Audit Activity Charter* is modelled in line with the OLG template. At page 59 under section 7, the OLG model specifically refers to the *AUASB Standards*.

The Internal Auditor's interpretation of this clause is that the intention of the OLG Guidelines is that the internal audit team should observe the same standards of ethical conduct as stipulated in *AUASB Standards*, more specifically, AUS110. The preamble to AUS110 clearly states that AUS110 requires compliance with provisions of the *Accounting Professional and Ethical Standards Board* provisions. The main instrument for providing guidance to accounting professionals is the *Accounting Professional and Ethical Standards Board Standard – APES110*.

While the consultant is correct to state that the strict interpretation of the construction of AUS110 is that AUS110 is applicable to external auditors only, the standard provides extensive guidance on non-assurance engagements and engagements other than statutory audits. More importantly, an evaluation of the terms of the AUS110 standard and other *Auditing Standards* references to ethical guidelines contained in APES110. Provisions of APES110 under *APES200* series and *APES300* series, clearly applies to all accounting professionals including those in business.

In view of the foregoing, it can be extrapolated that the OLG's intention in mentioning the AUASB Standards in the Internal Audit Guidelines was to require the application of APES 110, and any other relevant AUS Standards where relevant.

The Internal Auditor therefore concludes that the impact of adopting the consultant's recommendation on this point is not likely to enhance the Council's governance and risk management framework.

Internal Auditor's Recommended Response

That no action be taken in response to this recommendation by the external quality assurance review consultant.

Recommendation 3.1(c) – The Internal Audit Charter should be reviewed by the Audit Committee and updated annually.

RESPONSE

Members of the ARMC will be aware that the ARMC Action List includes an item which requires the annual review of the Charters. That the Committee has a current resolution requiring that a detailed review of the Charters be deferred pending publication of the OLG's updated Internal Audit Guidelines.

ACTION

The Council Governance teams will be advised to ensure that official copies of updated charters are duly signed.

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Recommendation 3.1(d) - The Charter should include a statement regarding the Quality Assurance and Improvement Program

RESPONSE

Noted. The Charter will be updated with this information. The clause had been edited out of previous versions of the Charters over the years.

Recommendation 3.1(e) – Reporting arrangements for Internal Audit should be reviewed

Response:

Noted. The Dubbo Regional Council has reviewed the reporting arrangements for the Internal Auditor, as previously reported to the Audit and Risk Management Committee.

Recommendations 3.2 – Information technology audits

RESPONSE

The Chief Executive Officer indicated that additional resourcing will be sourced as required to facilitate information technology audits. The requirement for IT audits will be informed by risk assessments.

Recommendations 3.3 – Continuing professional development

RESPONSE

Noted. The current position is that training needs are identified on an annual basis during the performance appraisal process.

Recommendations 3.4 – Quality assurance and improvement programme

- Ongoing monitoring such as
 - Engagement Supervision/Work paper reviews
 - Staff Performance reviews
 - Annual Performance evaluations of the IA Function
 - Actual versus budgeted analysis for each engagement
 - Customer feedback surveys for each engagement
 - Performance measures (KPIs) for Internal Audit
 - Ongoing Professional Development
- Periodic Assessment, an annual self-assessment evaluating conformance with the internal audit standards. The assessment is presented to the Audit and Risk Committee for review.

RESPONSE

The points noted above are generally addressed through the Council's performance management system. The Audit and Risk Management Committee reviews and monitors progress in completion of the internal audit programme on a quarterly basis. In addition, the

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ARMC Chair's annual report includes a commentary regarding the planned reviews and completed reviews and a discussion around the reasons for any variances.

Customer feedback surveys have not been prepared to date due to time constraints. Considering the amount of internal audit resources available, a customer survey is an optional cost which has been avoided.

The independent members of the Committee have provided a limited oversight on the quality of working papers. The key risk mitigation in place is that the internal audit review reports are signed off by the responsible divisional directors and managers who ensure that the factual content of the reports is appropriate. The reports submitted to the Committee are detailed and comprehensive to enable the Committee to form a view regarding whether the audit opinions provided are supported with sufficient and competent audit evidence.

The proposed periodic assessment is a desirable quality control tool. However, the Council should consider the resource implications of this task.

Recommendations 3.5 – Internal audit planning

There is an opportunity to further enhance the internal audit planning process through increased consultation with management and the development of an integrated audit universe and risk assurance map.

Comments

The consultant acknowledges that the Council's internal audit planning process involves consultation with management. In all cases, the internal audit programme is informed with contributions and advice from the Executive Team.

The Internal Auditor also consults with the Executive Manager Governance and Internal Control who is responsible for facilitating risk management processes across Council. The internal audit programme is informed with outcomes of risk assessments as depicted in Council's risk registers.

*"Assurance is an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. An assurance map is a structured means of identifying and mapping the main sources of assurance in an organisation across the 4 lines of defence and coordinating them to best effect."*¹

The Council's Audit and Risk Management Committee receives regular reports from management on various aspects of the Council business. This process is aimed at providing information to the Committee regarding the state of internal controls in various areas of the Council. The Committee also receives an annual comprehensive report on the state of the corporate risks register and a management report on results of a comprehensive review of the operational risks registers. The Council's risks registers identify the key risks and related

¹ Assurance mapping: A vital governance and management tool (2018) Institute of Chartered Accountants England and Wales <https://www.icaew.com/technical/audit-and-assurance/assurance/assurance-mapping>.

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systems of internal control in place or proposed to mitigate the identified risks. This process addresses the objectives of an assurance map to a great extent. The quarterly report to the ARMC includes an update on the internal audit programme status and an Action List which highlights "Regular management reports and presentations to the ARMC". The "Regular management reports and presentations to ARMC" highlight the information which is considered relevant to the ARMC under the 3 lines of defence model. This addresses an important aspect of an assurance map. For an example, the aim of assurance mapping is to identify "assurance gaps". Therefore, as "Regular management reports and presentations to ARMC" are considered by the Committee on a quarterly basis, any potential assurance gaps can be identified and considered as the Committee reviews the internal audit programme on an on-going basis.

The current approach adopted by Council is that the audit programme is primarily informed by results of a comprehensive risk assessment framework with detailed risk registers. In addition, the Internal Auditor consults with the Chief Executive Officer and Management on additional areas of audit coverage required. The Internal Auditor considers this framework to be the Council's audit universe.

RESPONSE

It appears that the current framework includes elements of the assurance mapping tool, even though the information is not formally collated and labelled as an assurance map. The Council is enjoying the substantial benefits of an assurance mapping process. The Council's audit universe is well documented in the form of risk registers and the practice of considering additional management requirements is deemed to be an effective way of identifying and prioritising the Council's audit universe.

Internal Auditor's Recommendation: Consider engaging a once off consultant to prepare an assurance map and identify additional procedures which may be required to enhance the current framework.

Recommendations 3.6 – Internal audit resourcing

RESPONSE

Noted. The Council has already taken a position to address this issue.

Recommendations 3.7 – Internal audit manual

Internal Auditor's Comments

The consultant's suggested contents of an internal audit manual is covered in various documents currently adopted by the Council. For an example, the Audit and Risk Management Committee Handbook provides a collection of all the relevant documents and references to best practice in running the Audit and Risk Management Committee and the Council's internal audit and risk management functions. It is however noted that this document requires to be updated to incorporate changes which have occurred over the years.

RESPONSE

An updated internal audit manual will be prepared in due course after consultations regarding resource allocation for the task.

Recommendations 3.8 – Engagement planning

Comments

The consultant emphasised the importance of ensuring that the engagement planning process takes into account the following factors:

- Definition of risk concerns as they relate to each audit objective. At present risks are defined in a generic manner and not directly linked to objectives.
- Reconfirmation of audit budget
- Data analytics
- Subject matter expertise
- Fraud considerations.

RESPONSE

The above information is currently considered during engagement planning. The Council follows a risk based internal audit programme which is informed with a comprehensive suite of risk registers. Where appropriate and justified by the risk assessments in place, any of the above matters have been elevated to take a prominent position in internal audit reviews.

The position is that each of the internal audit programme tasks is linked to a specific corporate risk item. The audit objectives are generally a collection of procedures which collectively assist in forming an opinion regarding controls in place to mitigate identified corporate risks.

POINTS FOR DISCUSSION

- The ARMC should consider whether they require a more detailed report showing comprehensive operational details of how the Internal Auditor would have considered each of the above points.
- The Committee currently receives an annual report from management regarding the fraud risk management framework and changes to the fraud risk profile.

Recommendations 3.9 – Internal audit reporting

a) Format of Internal Audit Reports

Whilst they are comprehensive and address all identified issues, the current format of internal audit reports could be simplified to improve readability. In particular, reports contain a large amount of background detail, including;

- Detailed descriptions of the testing approach taken.
- Detailed system descriptions.
- Discussion regarding how planning review queries by Audit Committee members were addressed during the audit.

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Reports also contain detailed descriptions in relation to objectives and testing for which no exceptions were noted and no action is required. To enhance readability, contemporary internal audit practice is to report findings in internal audit reports on an exception basis. In addition, the executive summary for audit reports is presented as a separate document (covering report) to the detailed findings and whilst it summarises findings and recommendations it does not identify the risk rating Opportunities for Improvement of findings. Reporting could be enhanced by reviewing the format of the executive summary and combining it and the detailed findings into one document.

An example of a contemporary internal audit report format can be provided if required. Format will also need to be discussed with stakeholders to ensure their needs are met.

RESPONSE

The content of the internal audit reports has been driven by requirements of the Committee. For an example, the additional information suggested in the Consultant's Recommendation number 3.8 above is likely to result in an even bigger documentation of background information. On this basis, the Internal Auditor is proposing to retain the current format unless and until the Committee requests otherwise.

b) Risk Rating of Audit Findings

Internal audit report risk ratings are not aligned to align to the BOD Alliance Council's Risk Management process. Contemporary internal audit practice is to apply an organisation's Risk Management process to establish criticality of audit findings.

Internal Audit should use a risk matrix to grade audit ratings that aligns with the corporate Risk Management process. This would include defined criteria related to business risk factors.

RESPONSE

The internal audit programme tasks are aligned with the Council's corporate risks register. The link between internal audit review reports and the corporate risks register is therefore retained through this association of internal audit tasks with the corporate risks register.

The additional grading used is an internal audit opinion regarding the significance of the audit issues identified. This grading system shows the priority rating for performance improvement observations raised. The priority rating assigned to deficiencies identified provides guidance on the internal auditor's view regarding the urgency required in addressing identified issues.

Therefore, no action is being proposed in response to the consultant's recommendation.

c) Agreed Management Actions

Internal Audit reports contain both recommendations and management responses/actions to address recommendations. Recent developments in internal audit practice have seen a move toward the use of agreed management actions to replace the use of recommendations and management responses.

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Using this approach internal audit will develop proposed management actions which are discussed with management at the closing/ exit interview and amended as necessary to take into account business constraints that internal audit may not be aware of. Timeframes for implementation are also agreed at the exist interview. Use of this approach improves management “buying” into solutions for identified problems and reduces the likelihood of management disagreement with recommendations. Agreement of the actions and implementation timeframes at exit interview stage also reduces the timeline for the issue of internal audit reports.

RESPONSE

The Audit and Risk Management Committee members of the BOD Alliance member councils at their meeting of 10 August 2018 agreed that the current report format is preferable. Therefore, no change to the existing report format will be required as a result of the consultant’s recommendation.

d) Audit Report Opinion and Conclusion

Audit reports do not contain an overall opinion or conclusion aligned to audit objectives. Standard 2450 requires that when an overall opinion is issued, it must consider the expectations of senior management, the Board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

An overall opinion can provide either positive or negative assurance in relation to the audit objectives. The use of negative assurance opinions is however discouraged as their value to management is limited.

An example of a positive opinion could be;

*Based on the work performed, there are some weaknesses in the design and application of controls and/or opportunities to increase efficiencies in XXX, impacting the achievement of the audit objectives identified in **Appendix A**. In particular, improvements are required to ensure achievement of the following objectives;*

- Objective 1
- Objective 2

RESPONSE

The current format of the internal audit reports is that an executive summary is provided in addition to a detailed report of findings and recommendations. The Internal Auditor considers this executive summary to be the overall opinion and conclusion.

The Internal Auditor requires further guidance from the Audit and Risk Management Committee regarding any further changes to the report.

e) Positive Reporting

Internal audit reports prepared at the end of each internal audit engagement do not generally include positive comments to provide balanced reporting. The Internal Audit Standards encourage acknowledgement of satisfactory performance in audit reports.

It can also have a positive influence on the relationship between Internal Audit and the people audited.

RESPONSE

The Internal Auditor generally focuses on providing commentary which is supported with sufficient and competent audit evidence, but within the limits of set audit objectives. The reports show whether the audit objective was achieved or not. In addition, the reports include an audit opinion and details of test samples assessed to inform the audit opinion. Where an audit test shows that systems of internal control are in place and working properly, this fact is reported as such. There are generally 2 possible outcomes in a test of controls. A pass or a fail. In an audit of operational issues for an example, the internal audit reports show the number of audit test items considered and the proportion of exceptions noted. Where no exceptions have been noted these statistics testify a positive outcome.

The Internal Auditor takes note of the consultant's comment but is not proposing to change the current format of the report to provide additional commentary where the test results do not highlight exceptions.

f) Internal Audit Annual Report

Internal Audit could consider an annual report each year to summarise its work and achievements for the year, and to demonstrate the value it has delivered. There is a trend for annual reports to capture details on Internal Audit activities and achievements to be presented to the Audit Committee and Executive Management.

An Annual Report showcases the Internal Audit contribution over the previous year and features the capability of personnel. It also provides trends, analysis, and commentary on themes. It reports where systemic issues were identified and highlighted. By doing so, it helps to enhance Internal Audit credibility by drawing the 'whole story' together.

This document would be in addition to and assist in informing the content of the Audit and Risk Committee annual report.

RESPONSE

The Committee receives an annual ARMC Chair's report which includes information suggested by the consultant. The Internal Auditor supplies the information highlighted by the consultant to the ARMC Chair as required for the Chair's report. This process ensures that the internal audit function's assessment and reporting on its annual activities is reviewed and authenticated by an independent person.

AUDIT AND RISK MANAGEMENT COMMITTEE
5 SEPTEMBER 2018

AUD18/37

It is recommended that no action be taken in response to this this recommendation by the consultant.

SUMMARY

This report provides an explanation on how Council currently deals with some of the issues raised by the consultant in her recommendations. In some areas, it is proposed that Council introduce additional procedures as suggested by the consultant.

Appendices:

1 [↓](#) External Quality Assurance Report BOD Alliance Internal Audit Unit



Bathurst, Orange & Dubbo Councils

External Quality Assessment
Internal Audit Unit

July 2018



**O'Connor Marsden
& Associates Pty Limited**

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The Directors of Corporate Services
Bathurst, Orange and Dubbo Councils

18 July 2018

Dear Sir and Madam,

Re: Assurance Report from the External Quality Assessment of the Internal Audit Unit

O'Connor Marsden and Associates (OCM) were engaged to conduct an external quality assessment (EQA) of the shared Internal Audit function of the Bathurst, Orange and Dubbo (BOD) Alliance. The purpose of the assessment was to assess the Internal Audit function's conformance to the Institute of Internal Auditors International Professional Practices Framework and Standards.

The assessment was completed in March 2018 with final feedback received from each Council in July 2018. The final report from our assessment is attached for your consideration.

Should you require any further information or wish to clarify any matters in relation to the contents of the report, please do not hesitate to contact me on 9252 2565.

Yours sincerely

Pamela Robertson-Gregg
Director

Sydney Parramatta Wollongong Melbourne Brisbane Canberra Adelaide

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Executive Summary

1 Executive Summary

1.1 Introduction

O'Connor Marsden and Associates (OCM) were engaged to conduct an external quality assessment (EQA) of the shared Internal Audit function of the Ballhurst, Orange & Dubbo Council Alliance (BOD Alliance). The purpose of the assessment was to assess the Internal Audit function's conformance to the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) and Standards (the Standards).

Further information in relation to the extent of the procedures performed and the scope of our engagement is detailed in Appendix A and the Inherent Limitations and Restrictions of Use Statement in Appendix E.

1.2 Background

The BOD Alliance have a shared internal audit service provided by an inhouse staff member employed by Orange Council. Internal Audit develops a three year risk-based Internal Audit Plan for each Council. The number of audits conducted for each Council varies however total audit days for each Council is 60.


The Audit Committees of the BOD Alliance Councils requested an independent Quality Assessment of the Internal Audit function. This Quality Assessment satisfies the requirements of the Internal Audit Standards.

The standards applied to Internal Audit are the 'International Standards for the Professional Practice of Internal Auditing' (Standards), contained in the 'International Professional Practices Framework' (IPPF) issued by the Institute of Internal Auditors (IIA) internationally.

The Standards require Internal Audit functions to develop and maintain a Quality Assurance and Improvement Program, which includes a periodic independent Quality Assessment of Internal Audit at least once every 5 years.

1.3 Assessment of the BOD Internal Audit Function

In conducting the Quality Assessment, we assessed the BOD Internal Audit Function against a range of measures. These are summarised in the following tables. The assessments have been rated according to the following legend:

| | |
|---|--|
| Generally conforms with |  |
| <ul style="list-style-type: none"> Internal Audit good practice OR The International Standards for the Professional Practice of Internal Auditing | |
| Partially conforms with | |
| <ul style="list-style-type: none"> Internal Audit good practice OR The International Standards for the Professional Practice of Internal Auditing | |
| Does not conform with: | |
| <ul style="list-style-type: none"> Internal Audit good practice OR The International Standards for the Professional Practice of Internal Auditing | |

References contained in the tables are to opportunities for improvement identified in Section 2 of this report. These opportunities have been classified as either strategic or process improvement.

Executive Summary

1.3.1 Assessment against the Quality Assessment Objectives

OCM found that, at the time the Quality Assessment was performed, Internal Audit is performing satisfactorily, with some opportunities for improvement. Assessment against the Quality Assessment objectives is shown below.

| Objectives | Assessment |
|--|------------------------------|
| 1 Conformance of Internal Audit services with mandatory requirements of the 'International Professional Practice Framework' (IPPF) issued by the Institute of Internal Auditors, including the 'International Standards for the Professional Practice of Internal Auditing'. | Satisfactorily Exposure 1 |
| 2 Expectations of Internal Audit services expressed by the General Managers, Audit and Risk Committee, and Executive Management, and whether these are being met. | Satisfactorily Exposure 1 |
| 3 Effectiveness of the approach and methodology adopted by the Internal Auditor in the conduct of reviews undertaken in the review period. | Satisfactorily Exposure 1 |
| 4 Whether Internal Audit operations represents contemporary good practice. | Satisfactorily Exposure 1 |
| 5 Assessment of skills, knowledge and experience capability within Internal Audit. | Satisfactorily Exposure 1 |
| 6 Whether Internal Audit adds value and contributes to improving business operations. | Satisfactorily Exposure 1 |

1.3.2 Assessment against the Internal Audit Core Principles

The 'International Professional Practices Framework' issued by the Institute of Internal Auditors prescribes 10 Core Principles for Internal Audit functions. We assessed BOD Internal Audit as:

| Core Principles | Assessment |
|--|---------------------------------------|
| 1 Demonstrates integrity. | Satisfactorily Exposure 1 |
| 2 Demonstrates competence and due professional care. | Satisfactorily Exposure 1 |
| 3 Is objective and free from undue influence (independent). | Satisfactorily Exposure 1 |
| 4 Aligns with the strategies, objectives, and risks of the organisation. | Satisfactorily Exposure 1 |
| 5 Is appropriately positioned and adequately resourced. | Opportunity for improvement 3-1 |

Executive Summary

| Core Principles | | Assessment |
|-----------------|--|---------------------------------|
| 6 | Demonstrates quality and continuous improvement. | Opportunity for improvement 3.4 |
| 7 | Communicates effectively. | Opportunity for improvement 1.3 |
| 8 | Provides risk-based assurance. | |
| 9 | Is insightful, proactive, and future-focused. | |
| 10 | Promotes organisational improvement. | |

1.3.3 Assessment against the attributes of effective Internal Audit

We reviewed Internal Audit against attributes of effective Internal Audit pronounced by the IIA in its CBOK report.

| Attributes | | Assessment |
|------------|---|---|
| 1 | Operates from a clear, updated Internal Audit Charter. | Opportunity for improvement 2.1 |
| 2 | Adapts its activities to the needs of the organisation. | |
| 3 | Uses a risk-based approach. | |
| 4 | Reports directly to the Audit Committee. | Opportunity for improvement 3.1 |
| 5 | Enjoys full support of the Audit Committee and management. | |
| 6 | Maintains open communication with the Audit Committee and management. | |
| 7 | Has 'clout' within the Executive ranks. | |
| 8 | Engenders respect and integrity throughout the organisation. | |
| 9 | Teams with other internal and external resources, as appropriate. | Opportunity for improvement 3.2, 3.5, 3.6 & 3.8 |
| 10 | Provides leadership on issues of internal control, fraud, financial reporting, risk management, and corporate governance. | |
| 11 | Leverages technology. | Opportunity for improvement 3.8 |
| 12 | Deploys best-available methodologies. | Opportunity for improvement 3.5 & 3.8 |

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Executive Summary

| Attributes | | Assessment |
|------------|---|---------------------------------|
| 13 | Engages continuous education and staff development. | Opportunity for improvement 2.2 |
| 14 | Consistently re-evaluates its performance. | Opportunity for improvement 3.4 |
| 15 | Provides support to the organisation's anti-fraud programs. | |

1.3.4 Assessment against the Internal Audit Standards

There is general conformance to the Standards and the IIA Code of Ethics, with three overall standards identified as partial conformance. Opportunities for improvement were noted in relation to other standards and these have been identified below.

The overall assessment against the overarching Standards is:

| Standards | | Assessment |
|------------------------------|---|--|
| Attribute Standards | | |
| 1000 | Purpose, Authority and Responsibility | Opportunity for improvement 3.1 |
| 1100 | Independence and Objectivity | Conforms to requirement 3.1* |
| 1130 | Impairment to Independence or Objectivity | |
| 1200 | Proficiency and Due Professional Care | Conforms to requirement 3.2, 3.3 |
| 1300 | Quality Assurance and Improvement Program | Opportunity for improvement 3.4 |
| Performance Standards | | |
| 2000 | Managing the Internal Audit Activity | Opportunity for improvement 3.5, 3.6 & 3.7 |
| 2100 | Nature of Work | Conforms to requirement 3.2 |
| 2200 | Engagement Planning | Conforms to requirement 3.8 |
| 2300 | Performing the Engagement | |
| 2400 | Communicating Results | Conforms to requirement 3.9 |
| 2500 | Monitoring Progress | |
| 2600 | Communicating the Acceptance of Risk | |
| Code of Ethics | | |
| Code of Ethics | | |

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Executive Summary

For detailed assessment against the Standards please see Section 2.

1.4 Opportunities for Improvement

The following opportunities for improvement have been identified, please refer to Section 3 for more detail:

1. Internal Audit Charters
 - a. The Internal Audit Charter could be enhanced to reflect recent IPPF changes.
 - b. Reference to Auditing and Assurance Standards Board (AUASB) Standards should be removed.
 - c. The Internal Audit Charter should be reviewed by the Audit Committee and updated annually.
 - d. The Internal Audit Charter should include a statement regarding the Quality Assurance and Improvement Program.
 - e. Reporting arrangements for Internal Audit should be reviewed.
2. An appropriate means of resourcing Information Technology audits should be determined as a matter of priority.
3. Further professional development could be considered for the Internal Auditor to keep them up-to-date with contemporary and emerging internal audit practice.
4. A Quality Assurance and Improvement Program should be developed and included in the Internal Audit Manual.
5. There is an opportunity to further enhance the internal audit planning process through increased consultation with management and the development of an integrated audit universe and risk assurance map.
6. There is an opportunity to review Internal Audit Resourcing across the three Councils to ensure that internal audit coverage is commensurate with the risk profile and operations of each Council.
7. An internal audit manual should be developed.
8. There are opportunities to enhance Internal Audit engagement planning.
9. There are opportunities to enhance internal audit reporting to stakeholders specifically in regard to
 - a. Format of Internal Audit Reports
 - b. Risk Rating of Audit Findings
 - c. Agreed Management Actions
 - d. Audit Report Opinion and Conclusion
 - e. Positive Reporting
 - f. Internal Audit Annual Report

1.5 Matters for Consideration

The Audit and Risk Committee Charter of each Council within the BOD Alliance contains the following statement (Section 3.2) regarding composition of the Committee:

The ARMC will consist of:

Core Members (voting)

- *Mayor of the day (or a Councillor nominated by the Mayor as his/her representative)*
- *One Councillor*
- *Two independent external members (not members of Council and one to be Chairperson)*

The Local Government Internal Audit guidelines recommend that the Mayor is not a voting member of the Audit and Risk Committee. This is supported by corporate governance better practice which states that:

- Board Chairs (to which a Mayor may be equated) should not, as a general rule, be a voting member of an Audit Committee although they may attend in a non-voting capacity.
- Audit Committee membership should be based on the skills and experience necessary to discharge the responsibilities of the committee not by virtue of position.

Executive Summary

Whilst it was not directly within the scope of this review, the Councils within the BOD alliance may wish to consider amending Audit Committee membership requirements to align with better practice.

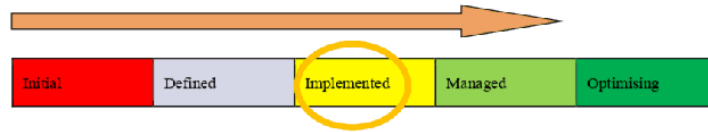
1.6 Acknowledgement

We wish to take this opportunity to thank BOD Alliance Councils and personnel (refer **Appendix B**) for their co-operation and assistance during our review.

1.7 Conclusion

The maturity of the internal audit function was assessed against the IIA's Maturity Matrix, which assesses internal audit functions across the Standards. (Refer **Appendix D** for detailed assessment)

Our assessment concluded that Internal Audit is operating satisfactorily with some opportunities to enhance the value proposition provided to each Council. Those opportunities are outlined in this report.



Detailed Assessment against the Standards

2 Detailed Assessment against the Standards

| Attribute Standards | Generally Conforms | Partially Conforms | Does Not Conform |
|---|--------------------|----------------------------------|------------------|
| 1000 – Purpose, Authority, and Responsibility (Internal Audit Charter) | | | |
| 1010 – Recognising Mandatory Guidance in the Internal Audit Charter | | Opportunity for improvement 3.1 | |
| 1100 – Independence and Objectivity | | | |
| 1110 Organisational Independence | | Opportunity for improvement 3.1e | |
| 1111 – Direct interaction with the Board/Audit Committee | | | |
| 1112 – Chief Audit Executive Roles beyond Internal Auditing | | | |
| 1120 – Individual Objectivity | | | |
| 1130 – Impairment to Independence and Objectivity | | | |
| 1200 – Proficiency and Due Professional Care | | | |
| 1210 Proficiency | | Opportunity for improvement 3.2 | |

Detailed Assessment against the Standards

| Attribute Standards | Generally Conforms | Partially Conforms | Does Not Conform |
|--|---|---------------------------------|------------------|
| 1220 – Due Professional Care | | | |
| 1230 – Continuing Professional Development | Opportunity for Improvement 3.2 | | |
| 1300 – Quality Assurance and Improvement Program | | | |
| 1310 Requirements of the Quality Assurance and Improvement Program | | Opportunity for improvement 3.4 | |
| 1311 Internal Assessments | | Opportunity for improvement 3.4 | |
| 1312 – External Assessments | 2018 Quality Assessment makes this conforming | | |
| 1320 – Reporting on the Quality Assurance and Improvement Program | | Opportunity for improvement 3.4 | |
| 1321 – Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing” | Not used | | |
| 1322 – Disclosure of Non-conformance | Not assessed | | |

Detailed Assessment against the Standards

| Performance Standards | Generally Conforms | Partially Conforms | Does Not Conform |
|--|---------------------------------|---------------------------------|------------------|
| 2000 – Managing the Internal Audit Activity | | | |
| 2010 – Planning | Opportunity for Improvement 3.5 | | |
| 2020 – Communication and Approval | | | |
| 2030 – Resource Management | | Opportunity for Improvement 3.6 | |
| 2040 – Policies and Procedures | | Opportunity for Improvement 3.7 | |
| 2050 – Coordination and Reliance | | | |
| 2060 – Reporting to the Senior Management and the Board | | | |
| 2070 – External Service Provider and Organisational Responsibility for Internal Auditing | Not applicable | | |
| 2100 – Nature of Work | | | |
| 2110 – Governance | | Opportunity for Improvement 3.2 | |
| 2120 – Risk Management | | | |

Detailed Assessment against the Standards

| Performance Standards | Generally Conforms | Partially Conforms | Does Not Conform |
|---|---------------------------------|--------------------|------------------|
| 2130 – Control | | | |
| 2200 – Engagement Planning | | | |
| 2201 Planning Considerations | Opportunity for Improvement 2.2 | | |
| 2210 – Engagement Objectives | Opportunity for Improvement 2.3 | | |
| 2220 – Engagement Scope | | | |
| 2230 – Engagement Resource Allocation | | | |
| 2240 – Engagement Work Program | | | |
| 2300 – Performing the Engagement | | | |
| 2310 – Identifying Information | | | |
| 2320 – Analysis and Evaluation | | | |
| 2330 – Documenting Information | | | |
| 2340 – Engagement Supervision | | | |

Detailed Assessment against the Standards

| Performance Standards | Generally Conforms | Partially Conforms | Does Not Conform |
|--|---------------------------------|---------------------------------|------------------|
| 2400 – Communicating Results | | | |
| 2410 – Criteria for Communicating | | | |
| 2420 – Quality of Communications | Opportunity for Improvement 2.2 | | |
| 2421 – Errors and Omissions | None pertains | | |
| 2430 – Use of “Conducted in conformance with the International Standards for the Professional Practice of Internal Auditing” | Not used | | |
| 2431 – Engagement Disclosure of Non-conformance | None pertains | | |
| 2440 – Disseminating Results | | | |
| 2450 – Overall Opinions | | Opportunity for Improvement 3.9 | |
| 2500 – Monitoring Progress | | | |
| 2600 – Communicating the Acceptance of Risks | | | |

3 Opportunities for Improvement

The observations below apply across all three Councils unless specifically stated.

3.1 Internal Audit Charters

a) The Internal Audit Charter could be enhanced to reflect recent IPPF changes.

The Internal Audit Charter has not been updated to reflect recent changes to the 'International Professional Practices Framework' Standard 1010:

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing must be recognized in the Internal Audit Charter.

The IIA model Internal Audit Charter suggests the following wording:

The internal audit [department/activity] will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The chief audit executive will report periodically to senior management and the [board/audit committee/supervisory committee] regarding the internal audit [department/activity]'s conformance to the Code of Ethics and the Standards.

b) Reference to Auditing and Assurance Standards Board (AUASB) Standards should be removed

The standards for internal auditing are the 'International Standards for the Professional Practice of Internal Auditing' issued by the Institute of Internal Auditors.

The Internal Audit Charter states that, in addition to compliance with Internal Audit Standards, internal audit operations should comply with the Standards and Code of Ethics issued by the AUASB. The AUASB is responsible for developing and issuing standards applicable to external audit engagements. AUASB standards are not relevant to internal auditing.

c) The Internal Audit Charter should be reviewed by the Audit Committee and updated annually.

Bathurst Council

The Charter mentions periodic review by Internal Audit but does not specify that the Charter should be reviewed and approved by the Audit Committee. We note that the charter is reviewed annually and approved by the Committee however that is not evident as the Charter does not contain the latest review date and is not signed.

Orange Council

The charter provided contains provision for Audit Committee approval. We note that the charter is reviewed annually and approved by the Committee however that is not evident as the Charter does not contain the latest review date (it is dated September 2015) and is not signed.

Dubbo Council

The charter provided contains provision for Audit Committee approval. We note that the charter is reviewed annually and approved by the Committee however that is not evident as the Charter does not contain the latest review date (it is dated July 2012) and is not signed.

Opportunities for Improvement

d) The Charter should include a statement regarding the Quality Assurance and Improvement Program

The Internal Audit Charter does not include a reference to the maintenance and operation of a Quality Assurance and Improvement Program. The IIA model Internal Audit Charter suggests the following wording:

"The internal audit [department/activity] will maintain a quality assurance and improvement program that covers all aspects of the internal audit [department/activity]. The program will include an evaluation of the internal audit [department/activity]'s conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit [department/activity] and identify opportunities for improvement. The chief audit executive will communicate to senior management and the [board/audit committee/supervisory committee] on the internal audit [department/activity]'s quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside [name of organization]."

e) Reporting arrangements for Internal Audit should be reviewed

The concept of administrative and functional reporting lines is used to protect the independence of Internal Audit. The Charter states:

"... Internal Audit shall have independent status within BOD Alliance, and for this purpose shall be responsible directly through the Internal Auditor to the respective Audit & Risk Management Committees and General Manager and administratively to the:

- *Director Corporate Services & Finance – Bathurst Regional Council*
- *Director Corporate Services – Orange City Council*
- *Director Corporate Development – Dubbo Regional Council.*

We note that the Audit & Risk Management Committee acts as a functional reporting line for the Internal Auditor through the review and approval of the internal audit plan, individual internal audit planning documents and review of draft reports. Whilst review of individual planning documents and draft reports would generally not occur by Audit & Risk Management Committee members, given that no other mechanism is available for quality review of internal audit's work (i.e. there is only one staff member) this is considered appropriate.

However, although the Charter specifies that the reporting line to the respective Directors of Corporate Services/ Development is administrative only, during the assessment, we:

- Reviewed documentation indicating that the reporting line, particularly at Orange Council, is functional rather than administrative in nature. This includes significant influence on the content of the internal audit plan, direction being provided as to the internal audit approach for certain engagements and amending internal audit reports prior to their issue.
- Received comments from a variety of stakeholders interviewed indicating that the level of influence exercised over internal audit operations by the Directors of Corporate Services constituted a functional rather than an administrative reporting line.

Standard 1110.A1 (Organisational Independence) requires that the internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The situation described above represents non-conformance with this standard and threatens the independence of internal audit.

To ensure compliance with Standard 1110, the IIA model internal audit charter specifies the following best practice reporting arrangements for internal audit:

The chief audit executive will report functionally to the [board/audit committee/supervisory committee] and administratively (i.e., day-to-day operations) to the [chief executive officer]. To establish, maintain, and assure that [name of organization]'s internal audit [department/activity] has sufficient authority to fulfill its duties, the [board/audit committee/supervisory committee] will:

- *Approve the internal audit [department/activity]'s charter.*

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Opportunities for Improvement

- *Approve the risk-based internal audit plan.*
- *Approve the internal audit [department/activity]’s budget and resource plan.*
- *Receive communications from the chief audit executive on the internal audit [department/activity]’s performance relative to its plan and other matters.*
- *Approve decisions regarding the appointment and removal of the chief audit executive.*
- *Approve the remuneration of the chief audit executive.*
- *Make appropriate inquiries of management and the chief audit executive to determine whether there is inappropriate scope or resource limitations.*

3.2 Information Technology Audits

An appropriate means of resourcing Information Technology audits should be determined as a matter of priority.

At present the internal audit plans for all three Councils do not include any information technology audits. This includes (but is not limited to) audits such as:

- IT General Control Environment
- IT Governance
- Digital Information Security (including Cyber security)
- Specific Application Systems audits

We were advised that in the past reliance had been placed on consulting reports commissioned by the IT sections of each Council. Our discussions with relevant stakeholders indicated however that the last of these engagements was commissioned four to five years ago. Given the reliance on technology to manage and deliver services, this is a significant area of risk around which no assurance is currently being obtained.

Standard 2110.A2 requires that the internal audit activity must assess whether the information technology governance of the organisation supports the organisation’s strategies and objectives.

In addition, Standard 1210 requires that internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform those responsibilities.

Given that the internal audit unit comprises one person, it is not reasonable to expect that they have the expertise to conduct detailed IT audits and this is recognised in Standard 1210.A3 however Standard 1210.A1 requires that in the absence of such skills internal audit should obtain competent advice and assistance.

In considering resourcing to conduct Information Technology audits, the Councils may wish to consider;

- Allocating a specific budget to fund the conduct of IT audits, specified on the internal audit plan, by an outsourced provider.
- Paying for the Internal Auditor to undertake the Certified Information Systems Auditor program through ISACA. It should be noted that by obtaining this qualification the Internal Auditor will obtain the skills to conduct audits of IT governance and general controls however they still may not obtain the skills required to undertake detailed technical IT audits.

Opportunities for Improvement

3.3 Continuing Professional Development

Further professional development could be considered for the Internal Auditor to keep them up-to-date with contemporary and emerging internal audit practice.

As part of continuing professional development, it is useful for internal audit staff to be exposed to contemporary and emerging internal audit practice.

It need not be an expensive exercise, and could include, for example:

- Attendance at seminars conducted by service providers
- Presentations by the IIA.
- IIA webinars.
- Relevant professional development training courses and conferences.
- Internal audit certifications.

We acknowledge that the Internal Auditor makes every effort to undertake continuing professional development within the limitations of the budget provided.

3.4 Quality Assurance and Improvement Program

A Quality Assurance and Improvement Program should be developed and included in the Internal Audit Manual

Standard 1300 (incorporating Standards 1310 to 1322) require the Chief Audit Executive to maintain a quality assurance and improvement program for all aspects of the internal audit function. This includes internal (ongoing monitoring and periodic self-assessments) and external quality assessments, reporting, stating that audit work conforms to the Standards and disclosing issues of non-conformance to the Standards.

The Internal Audit Unit has not conformed to Standard 1311 Internal Assessments. Internal assessments satisfying the requirements of the standard include:

- Ongoing monitoring such as
 - Engagement Supervision/Work paper reviews
 - Staff Performance reviews
 - Annual Performance evaluations of the IA Function
 - Actual versus budgeted analysis for each engagement
 - Customer feedback surveys for each engagement
 - Performance measures (KPIs) for Internal Audit
 - Ongoing Professional Development
- Periodic Assessment, an annual self-assessment evaluating conformance with the internal audit standards. The assessment is presented to the Audit and Risk Committee for review.

We acknowledge that given the individual nature of the internal audit unit, workpaper reviews are difficult to achieve. At present, engagement supervision is effectively provided by the Audit and Risk Committee in their review of engagement planning documents and draft audit reports. This is considered appropriate and should be included in the QAIP to satisfy engagement supervision requirements.

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Opportunities for Improvement

3.5 Internal Audit Planning

There is an opportunity to further enhance the internal audit planning process through increased consultation with management and the development of an integrated audit universe and risk assurance map.

Standard 2010 requires the Chief Audit Executive to establish a risk based plan to determine the priorities of the Internal Audit activity, consistent with the organisation's goals.

The internal audit plan is developed based on the organisational risk registers of each Council and through discussions with some members of management. The linkage to the organisational risk registers has allowed the plan to evolve to more clearly align to the key risks of each Council. However, in discussions with stakeholders it was noted that:

- Risk management is still maturing across the three Councils and as a result there may be a question around the completeness of risk registers.
- Whilst some members of management were provided with the opportunity to provide input into the internal audit plan through discussions with the internal auditor, others indicated that they had not provided input and had limited visibility of its content. This was particularly the case for those members of management responsible for more operational areas of Council's services. Increased consultation with management will potentially allow Internal Audit to identify risks, or emerging risks, that have not been included in risk registers.
- There was a view amongst some stakeholders that the role of internal audit was only to provide assurance around financial and corporate functions and not over operational areas. To some degree, this is reflected in the content of the internal audit plan.

In addition, a detailed audit universe and overlaying risk assurance map has not been developed to identify and assess assurance provided over key risks which may further inform the internal audit plan. Internal Audit is only one assurance mechanism in a suite of assurance mechanisms. These are often identified as the '3 Lines of Defence', plus external assurance mechanisms. Ideally, all review mechanisms should be visible to the General Manager and the Audit and Risk Committee.

The purpose of an assurance map is to:

- Assess assurance coverage against the key organisation strategies, risks and assurance requirements.
- Ensure that there is a comprehensive risk and assurance process.
- Minimise duplication of effort.
- Identify assurance gaps.
- Minimise assurance cost.
- Provide comfort to stakeholders about the level of assurance.
- Help to understand where overall risk and assurance roles and accountabilities reside.
- Identify skills required to deliver necessary assurance as a guide to resourcing.

Assurance maps provide comfort that key organisational risks are adequately covered by assurance activities. Implementation of an assurance map could provide the assurance sought over the financial functions within the need for as much internal audit coverage, and increase the internal audit resources available for audits over key strategic and operational risks.

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Opportunities for Improvement

3.6 Internal Audit Resourcing

There is an opportunity to review Internal Audit Resourcing across the three Councils to ensure that internal audit coverage is commensurate with the risk profile and operations of each Council.

Standard 2030 requires the chief audit executive to ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

At present the resourcing of the Internal Audit function consists of 1 staff member across 3 Councils, equating to approximately 60 audit days per Council at a cost of \$56,489 per Council. Whilst leave requirements etc are considered in calculating available days, travel time between the geographically dispersed Councils is not.

In considering the extent of Internal Audit coverage, in Figure 1, we have benchmarked each Council's 'spend' on Internal Audit against data from two sources. This was done to ascertain what could be considered, through benchmarking, to be a reasonable organisation 'spend' on Internal Audit with respect to other organisations. In Figure Two we have provided a deidentified analysis of the Internal Audit spend of eight similar sized NSW Councils.

Although benchmarking should only be considered as a guide and one factor to be considered when assessing an organisation's overall assurance coverage, based on the analysis in Figures One and Two it appears that the BOD Alliance Councils are spending significantly less than benchmark and less than other NSW Councils of similar size. As a result, Internal audit resources may be insufficient for auditing the key risks of the Councils, resulting in significant gaps in the assurance framework.

Figure One

| Source | Revenue | Spend on Internal Audit | Benchmarked spend on Internal Audit | |
|------------------|-------------|-------------------------|-------------------------------------|--------------|
| | | | NSW Govt = .1%* | GAIN = .4%** |
| Bathurst Council | 128,580,000 | 56,489 | 128,580 | 514,320 |
| Orange Council | 119,603,000 | 56,489 | 119,603 | 478,412 |
| Dubbo Council | 201,796,000 | 56,489 | 201,796 | 807,184 |

* New South Wales Government Internal Audit Capacity in the NSW Public Sector', NSW Department of Premier & Cabinet, 2008

** The Institute of Internal Auditors Global Audit Information Network (GAIN) – under \$500 million category

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Opportunities for Improvement

Figure Two: NSW Local Government Internal Audit Spend

| | Council A | Council B | Council C | Council D | Council E | Council F | Council G | Council H |
|---|-----------|-----------|--|-----------|-----------|-----------|--|-----------|
| Operating Expenditure | \$96m | \$120m | \$136m | \$167m | \$168m | \$245m | \$265m | \$265m |
| EFT Internal Audit Staff | 1.5 | 1 | 1 | 1.2 | 4 | 2 | 1.5 | .8 |
| IA Staff Budget-\$ | 176,000 | 153,000 | 154,000 | 217,000 | 400,000 | 177,000 | 145,000 | 90,000 |
| IA Consultancy Budget \$ | 106,000 | 24,000 | 109,000 | | 47,300 | 240,000 | 40,000 | 140,000 |
| Total IA Budget-\$ | 282,000 | 177,000 | 263,000 | 217,000 | 447,300 | 417,000 | 185,000 | 230,000 |
| IA with Risk Management Responsibility | No | Yes | No | | | No | No | No |
| Dedicated Risk Manager/Officer | Yes | No | No | Yes | | Yes | Yes | Yes |
| Non-Audit Responsibilities | NA | NA | Public Officer Public Interest Disclosures Officer GIPA Review | | | | Privacy Complaints for Privacy Commissioner Rotating Assessment Submission Review Panel Independent Chair | |

Opportunities for Improvement

3.7 Internal Audit Manual

An internal audit manual should be developed.

Standard 2040 – Policies and Procedures requires that policies and procedures are developed to guide the internal audit activity. Whilst the internal auditor does have some documentation, including templates, to guide the work of internal audit, an overarching internal audit manual does not exist.

A table of contents for an internal audit manual for an inhouse internal audit function is provided below;

1. Foreword
2. Introduction
 - 2.1. Definition of Internal Audit
 - 2.2. Purpose of this Manual
3. Overview of Internal Audit
 - 3.1. Management of Internal Audit
 - 3.2. Role, Scope and Objectives of Internal Audit
 - 3.3. Audit and Risk Management Committee
 - 3.4. Liaison with External Audit
 - 3.5. Standards and Guiding Principles
 - 3.6. Independence, Objectivity and Ethical Standards
 - 3.7. Co-Sourcing – Managing Service Providers (If applicable)
4. Development of the Internal Audit Plan
5. Audit Approach
 - 5.1. Overview of the Internal Audit Process for Audit Engagements
 - 5.2. Audit Management
6. Engagement Planning
 - 6.1. Planning and Research
 - 6.2. Declaration of Conflicts of Interest
 - 6.3. Scoping and Risk identification
 - 6.4. System Descriptions and Risk and Control Analysis
 - 6.5. Audit Plan and Program
 - 6.6. Terms of Reference
7. Fieldwork
 - 7.1. Conduct Audit
 - 7.2. Analyse Findings and draw conclusions
 - 7.3. QA Review
8. Reporting
 - 8.1. Exit Interview
 - 8.2. Report Finalisation
 - 8.3. Audit Finalisation
9. Process for Follow up of Agreed Action Implementation
10. Quality Assurance and Improvement Program

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Opportunities for Improvement

11. Administration
 - 11.1. Staff and Recruitment
 - 11.2. Staff Development, Professional Training and Education
 - 11.3. Performance Review
 - 11.4. Record Retention

3.8 Engagement Planning

There are opportunities to enhance Internal Audit engagement planning.

The "Internal Audit Review Plan" produced by the Internal Auditor when planning audit engagements is comprehensive however we have noted some opportunities to enhance the planning process and add further value to the Councils.

Planning for internal audit engagements could include:

- Definition of risk concerns as they relate to each audit objective. At present risks are defined in a generic manner and not directly linked to objectives.
- Reconfirmation of Audit budget – When the annual Internal Audit Plan is prepared, days are estimated to perform each internal audit engagement. It is useful for the audit budget to be reconfirmed at the completion of planning for each engagement. This allows for early notification of audits that may take more time than originally anticipated due to issues identified during the planning stage.
- Data analytics – A section within the planning template to ensure data analytics is considered for every audit. Whilst not every engagement will require the use of computerised audit techniques, the Internal Audit Standards indicate that due professional care requires the use of such techniques wherever appropriate.
- Subject matter expertise – A section within the planning template to ensure use of specialist technical experts is considered for every audit. Subject matter experts (SMEs) with specialist technical knowledge can assist in more value-add from Internal Audit work. SMEs are used in some organisations as guest auditors to supplement Internal Audit knowledge, subject to independence issues being addressed. Use of SMEs has potential to provide a more credible and effective audit reporting outcome for audits of technical areas.
- Fraud – A section within the planning template to ensure fraud is considered for every audit.

3.9 Internal Audit Reporting

There are opportunities to enhance internal audit reporting to stakeholders.

a) **Format of Internal Audit Reports**

Whilst they are comprehensive and address all identified issues, the current format of internal audit reports could be simplified to improve readability. In particular, reports contain a large amount of background detail, including:

- Detailed descriptions of the testing approach taken.
- Detailed system descriptions.
- Discussion regarding how planning review queries by Audit Committee members were addressed during the audit.

Reports also contain detailed descriptions in relation to objectives and testing for which no exceptions were noted and no action is required. To enhance readability, contemporary internal audit practice is to report findings in internal audit reports on an exception basis.

In addition, the executive summary for audit reports is presented as a separate document (covering report) to the detailed findings and whilst it summarises findings and recommendations it does not identify the risk rating

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Opportunities for Improvement

of findings. Reporting could be enhanced by reviewing the format of the executive summary and combining it and the detailed findings into one document.

An example of a contemporary internal audit report format can be provided if required. Format will also need to be discussed with stakeholders to ensure their needs are met.

b) Risk Rating of Audit Findings

Internal audit report risk ratings are not aligned to align to the BOD Alliance Council's Risk Management process. Contemporary internal audit practice is to apply an organisation's Risk Management process to establish criticality of audit findings.

Internal Audit should use a risk matrix to grade audit ratings that aligns with the corporate Risk Management process. This would include defined criteria related to business risk factors.

c) Agreed Management Actions

Internal Audit reports contain both recommendations and management responses/actions to address recommendations. Recent developments in internal audit practice have seen a move toward the use of agreed management actions to replace the use of recommendations and management responses.

Using this approach internal audit will develop proposed management actions which are discussed with management at the closing/exit interview and amended as necessary to take into account business constraints that internal audit may not be aware of. Timeframes for implementation are also agreed at the exit interview. Use of this approach improves management "buyin" into solutions for identified problems and reduces the likelihood of management disagreement with recommendations. Agreement of the actions and implementation timeframes at exit interview stage also reduces the timeline for the issue of internal audit reports.

d) Audit Report Opinion and Conclusion

Audit reports do not contain an overall opinion or conclusion aligned to audit objectives. Standard 2450 requires that when an overall opinion is issued, it must consider the expectations of senior management, the Board, and other stakeholders and must be supported by sufficient, reliable, relevant, and useful information.

An overall opinion can provide either positive or negative assurance in relation to the audit objectives. The use of negative assurance opinions is however discouraged as their value to management is limited.

An example of a positive opinion could be:

Based on the work performed, there are some weaknesses in the design and application of controls and/or opportunities to increase efficiencies in XXX, impacting the achievement of the audit objectives identified in Appendix A. In particular, improvements are required to ensure achievement of the following objectives.

- Objective 1
- Objective 2

e) Positive Reporting

Internal audit reports prepared at the end of each internal audit engagement do not generally include positive comments to provide balanced reporting. The Internal Audit Standards encourage acknowledgement of satisfactory performance in audit reports.

It can also have a positive influence on the relationship between Internal Audit and the people audited.

f) Internal Audit Annual Report

Internal Audit could consider an annual report each year to summarise its work and achievements for the year, and to demonstrate the value it has delivered. There is a trend for annual reports to capture details on Internal Audit activities and achievements to be presented to the Audit Committee and Executive Management.

An Annual Report showcases the Internal Audit contribution over the previous year and features the capability of personnel. It also provides trends, analysis, and commentary on themes. It reports where systemic issues were identified and highlighted. By doing so, it helps to enhance Internal Audit credibility by drawing the 'whole story' together.

This document would be in addition to and assist in informing the content of the Audit and Risk Committee annual report.

Appendix A: Terms of Reference

Objectives and scope

The overall objective of the Quality Assessment was to provide an independent assessment on the effectiveness of the Internal Audit function. This included assessment of:

- Conformance of Internal Audit services with mandatory requirements of the 'International Professional Practice Framework' (IPPF) issued by the Institute of Internal Auditors, including the 'International Standards for the Professional Practice of Internal Auditing'.
- Expectations of Internal Audit services expressed by Audit and Risk Committee Members, the General Managers, Senior Executives and Middle Management, and whether these are being met.
- Effectiveness of the approach and methodology adopted by the Internal Auditor in the conduct of reviews undertaken in the review period.
- Effectiveness of the Internal Audit Plan to address identified risks.
- The effectiveness of the structure of the internally resourced internal audit function.
- Effectiveness of integration of IA into each Council's governance process.
- Assessment of skills, knowledge and experience within Internal Audit.

The scope of the Quality Assessment focused on the Internal Audit function, its operations, and its relationships with key stakeholders including the General Managers, Audit and Risk Committees, and Executive Management.

Methodology

Our methodology for the review included:

- Identifying and documenting the legislative, policy and other requirements for establishing and maintaining an internal audit function in NSW Local Government
- Reviewing the establishment of the internal audit function within the BOD Alliance, including charter, organisational structure and resourcing, reporting arrangements and internal audit documentation such as manual, templates, working papers and reports;
- Reviewing internal audit processes including strategic and annual planning, engagement planning, field work, communication, reporting and following up audit recommendations;
- Discussing the performance of the internal audit function with key stakeholders.
- Assessing the maturity of the University's internal audit function against the IIA Maturity Matrix
- Benchmarking internal audit resourcing against better practice benchmarks
- Assessing the attributes and performance of the internal audit function against the IPPF and the Standards.

Our fieldwork included reviewing a sample of in-house prepared internal audit working papers for conformance against the requirements of the IPPF and the Standards. The sample included internal audits conducted at each council

Appendix B: Personnel who assisted the review

Appendix B: Personnel who assisted the review

We wish to take this opportunity to thank the BOD Alliance Councils as well as the following personnel for their co-operation and assistance during the course of our review:

| Name | Position | Council |
|-------------------|--|--|
| Shephard Shambira | Internal Auditor | BOD Alliance |
| Scott Maunder | Director Community, Recreation & Cultural Services | Orange City Council |
| Murray Wood | Director Community & Recreation | Dubbo Regional Council |
| Michael Ferguson | Manager Governance and Risk Services | Dubbo Regional Council |
| Matthew Green | Manager Information Services | Dubbo Regional Council |
| David Shirley | General Manager | Bathurst Regional Council |
| Allan Cattermole | Director Cultural & Community Services | Bathurst Regional Council |
| Melissa Watkins | Director Planning and Environment | Dubbo Regional Council |
| Craig Giffin | Director Corporate Services | Dubbo Regional Council |
| John Walkom | Independent Chair | Dubbo Regional Council |
| Phil Burgett | Independent Chair Independent member | Orange City Council Bathurst Regional Council |
| Michelle Catlin | Manager Administration & Governance | Orange City Council |
| Jason Cooke | Manager Financial Services | Orange City Council |
| Michael McMahon | General Manager | Dubbo Regional Council |
| Pat McDonald | Manager Information Systems | Orange City Council |
| Nick Redmond | Acting Director Corporate & Community Services | Orange City Council |

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Appendix B: Personnel who assisted the review

| Name | Position | Council |
|----------------------|---|---------------------------|
| Gary Styles | General Manager | Orange City Council |
| Cr Joanne McRae | Deputy Mayor | Orange City Council |
| Brian Dwyer | Manager Governance | Bathurst Regional Council |
| Cr. Reg Kidd | Mayor | Orange City Council |
| Daren Sturgiss | Director Engineering Services | Bathurst Regional Council |
| David Waddell | Director Development Services | Orange City Council |
| Ian Greenham | Director Engineering Services | Orange City Council |
| Cr. Anne Jones | Councillor | Dubbo Regional Council |
| Tony Burgoyne | Manager Financial Services | Bathurst Regional Council |
| Steve Bassett | Community Representative on Audit Committee | Dubbo Regional Council |
| Andrew Fletcher | Independent member | Dubbo Regional Council |
| Andrew Fletcher | Independent Chair | Bathurst Regional Council |
| Michael O'Neil | Manager Information Services | Bathurst Regional Council |
| Aaron Jones | Director Corporate Services & Finance | Bathurst Regional Council |
| Cr Graeme Hanger | Mayor | Bathurst Regional Council |
| Jane Bassingthwaigle | Manager Financial Services | Dubbo Regional Council |
| Natalie Nissen | Manager Business Services | Dubbo Regional Council |
| Natasha Comber | Director Economic Development and Business | Dubbo Regional Council |

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Appendix C: Stakeholder Feedback

As an integral part of the Quality Assessment process, the Assessor held discussions with the stakeholders named in Appendix B above to obtain their feedback on the quality of Internal Audit services provided.

The following reflects the theme of comments received in the face to face meetings, though care is needed not to give too much weight to a particular comment without further investigation.

- The Internal Auditor is professional, has a good business knowledge, a constructive approach and has built good relationships.
- Reporting lines for the Internal Auditor to the Directors of Corporate Services are more functional than administrative in nature and in some circumstances, this has impacted the ability of internal audit to function independently.
- Internal Audit is currently under-resourced. Additional resourcing would allow internal audit to examine more operational areas and to provide governance and control advice on projects as required.
- Internal audit could be given a higher priority within the organisation. Education of management and councillors as to IA value may be appropriate.
- There is a key person risk in regard to internal audit.
- Breadth of business operations at Council is an issue. Significant areas of the business not getting attention. Not reasonable to expect that one resource is able to be across all areas.
- Internal Audit reports are thorough and address issues however length and readability of reports to users could be improved.
- Internal audit reports would benefit from having a clear expression of opinion.
- Timeliness of internal audit reports is sometimes an issue however this is due to delay in the receipt of management responses and not the fault of the internal auditor.
- The annual audit plan is generally aligned to organisational risk registers however there is some question about the completeness of risk registers in some areas.
- Internal audits could provide a feedback loop to verify the effectiveness of controls in risk registers and to identify additional risks.
- Consultation with management prior to the formulation of the internal audit plan could be improved to identify areas of priority where most value would be gained.
- Internal Audit's risk and control assessments are appropriate, and Internal Audit is willing to moderate the assessments.
- Have concerns around the absence of assurance in relation to Information Technology.
- Strong relationships are in place with the ARC.
- Internal Audit has commenced using data analytics in its audits, as appropriate, but have yet to make substantial progress in this area.

Appendix D: Maturity Assessment

| Internal Audit Maturity Rating | Standard 1000 Purpose, Authority and Responsibility | Standards 1100, 1130 Independence and Objectivity | Standard 1200 Proficiency and Due Professional Care | Standard 1300 Quality Assurance and Improvement Program | Standard 2000 Managing the Internal Audit Activity | Standard 2100 Nature of Work |
|--------------------------------|---|---|--|---|--|--|
| Optimised | Internal Audit Charter is in place, reviewed and approved by Audit Committee on annual basis, clearly linked to corporate governance objectives, specific good practice Internal Audit reporting arrangements | Internal Audit reporting arrangements defined in Internal Audit Charter, specific good practice reporting arrangements, independence and objectivity requirements defined by Internal Audit policy including requirements for conflict of interest disclosure | Internal Audit resources are credentialed, specialist resources are available when required, annual Risk Assessment conducted, ongoing and periodic Quality Assurance processes in place, training programs to enhance Internal Audit credentials and support operation of Internal Audit work | Documented ongoing and periodic Quality Assurance Program in place, Quality Assurance activities occur for internal audit engagements, Internal Assessment conducted annually, Internal Assessment conducted at least every 5 years | Internal Audit policies and procedures in place, Internal Audit plans linked to corporate objectives, effective Internal Audit reporting arrangements, clear feedback sought, performance measures in place and used to drive continuous improvement | Internal Audit focuses on controls, risk and governance, Internal Audit plans are clearly linked to enterprise-wide view of risk and plans are periodically adjusted, Internal Audit uses recognised tools of finance skills in its work |
| Managed | Internal Audit Charter is in place, reviewed and approved by Audit Committee on annual basis, clearly linked to corporate governance objectives | Internal Audit reporting arrangements defined in Internal Audit Charter, specific good practice reporting arrangements, independence and objectivity requirements defined by Internal Audit policy including requirements for conflict of interest disclosure | Internal Audit resources are credentialed, some specialist resources are available, annual Risk Assessment conducted, ongoing and periodic Quality Assurance processes in place | Documented ongoing and periodic Quality Assurance Program in place, Quality Assurance activities occur for internal audit engagements, Internal Assessment conducted annually | Internal Audit policies and procedures in place, Internal Audit plans linked to corporate objectives, effective Internal Audit reporting arrangements, clear feedback sought | Internal Audit focuses on controls, risk and governance, Internal Audit plans are clearly linked to enterprise-wide view of risk and plans are periodically adjusted |
| Implemented | Internal Audit Charter is in place, reviewed and approved by Audit Committee on a periodic basis | Internal Audit reporting arrangements defined in Internal Audit Charter, specific good practice reporting arrangements | Some Internal Audit resources are credentialed, some specialist resources are available, annual Risk Assessment conducted, ongoing Quality Assurance processes in place | Ongoing and periodic Quality Assurance Program elements in place, Quality Assurance activities occur for internal audit engagements | Internal Audit policies and procedures in place, Internal Audit plans linked to corporate objectives, effective Internal Audit reporting arrangements | Internal Audit focuses on controls, risk and governance |
| Defined | Internal Audit Charter is in place and approved by Audit Committee | Internal Audit reporting arrangements defined in Internal Audit Charter, but not good practice reporting arrangements | Internal Audit resources are partially credentialed, specialist resources may be available, annual Risk Assessment conducted, some ongoing Quality Assurance processes in place | Some ongoing Quality Assurance Program elements in place, some Quality Assurance activities occur for internal audit engagements | Internal Audit policies and procedures in place, Internal Audit plans linked to corporate objectives | Internal Audit focuses on controls and risk |
| Initial | No Internal Audit Charter or in draft or not approved by Audit Committee | Internal Audit reporting arrangements not defined in Internal Audit Charter or reporting arrangements not in line with good practice | Internal Audit resources not credentialed, no specialist resources, no annual Risk Assessment, limited ongoing Quality Assurance processes in place | No formal Quality Assurance Program in place, some Quality Assurance activities may occur for internal audit engagements | No Internal Audit policies and procedures in place, Internal Audit plans not linked to corporate objectives | Internal Audit focuses on controls |

Appendix D: Maturity Assessment

| Internal Audit Maturity Rating | Standard 2200 Engagement Planning | Standard 2300 Performing the Engagement | Standard 2400 Communicating Results | Standard 2500 Monitoring Progress | Standard 2600 Communicating the Acceptance of Risks | Code of Ethics |
|--------------------------------|---|---|--|--|--|--|
| Optimised | Planning performed in collaboration with stakeholders, planning adjusted for differing circumstances, planning documented, consistent methodology applied to internal audit engagements, supervisory review and sign-off occurs | Internal Audit policies and procedures clearly define internal audit engagement process, Audit Work Plans are tailored for each engagement, supervisory review and sign-off occurs, automated audit working paper system in place, CAATs and other audit techniques actively used | Reporting protocol established for communicating results, reporting done consistently from consistent format perspective, CAE reviews and sign-off audit reports before issue, management inputs to reporting is actively sought, reports contain management comments and agreed actions, Internal Audit prepares reports that show systemic issues to read through its work | Follow-up protocol established, follow-up on implementation of audit recommendations performed consistently, reporting to Audit Committee as a status of audit recommendations, automated system for receiving progress updates from management, high rate of audit recommendation clearance | Evaluation protocol defined, process clearly understood by Internal Audit and management, collaborative approach to resolution, clear determination of level of risk that can be accepted by Management that provides need for escalation protocol | Organisation Code of Conduct established, IIA Code of Ethics is embedded in Internal Audit policies, ethics training is conducted, Internal Audit staff complete annual Code of Ethics declaration |
| Managed | Planning performed in collaboration with stakeholders, planning documented, consistent methodology applied to internal audit engagements, supervisory review and sign-off occurs | Internal Audit policies and procedures clearly define internal audit engagement process, Audit Work Plans are tailored for each engagement, supervisory review and sign-off occurs, may have automated audit working paper system in place | Reporting protocol established for communicating results, reporting done consistently from consistent format perspective, CAE reviews and sign-off audit reports before issue, reports contain management comments and actions to implement recommendations | Follow-up protocol established, follow-up on implementation of audit recommendations performed consistently, reporting to Audit Committee as a status of audit recommendations | Evaluation protocol defined, process clearly understood by Internal Audit and Management, collaborative approach to resolution | Organisation Code of Conduct established, IIA Code of Ethics is embedded in Internal Audit policies, ethics training is conducted |
| Implemented | Planning performed and documented, consistent methodology applied to internal audit engagements, supervisory review and sign-off occurs | Internal Audit policies and procedures clearly define internal audit engagement process, Audit Work Plans are tailored for each engagement, supervisory review and sign-off occurs | Reporting protocol established for communicating results, reporting done consistently from consistent format perspective, CAE reviews and sign-off audit reports before issue | Follow-up protocol established, follow-up on implementation of audit recommendations performed consistently | Evaluation protocol defined, process clearly understood by Internal Audit and Management | Organisation Code of Conduct established, IIA Code of Ethics is embedded in Internal Audit policies |
| Defined | Planning performed and documented, consistent methodology applied to internal audit engagements | Some elements of internal audit engagement process defined, standard Audit Work Plans used | Reporting protocol established for communicating results, reporting done consistently from consistent format perspective | Follow-up protocol established, follow-up on implementation of audit recommendations occurs but not performed consistently | No evaluation protocol established, Management may assume inappropriate level of risk | Organisation Code of Conduct established, IIA Code of Ethics established, IIA Code of Ethics does not receive formal attention |
| Initial | Planning not performed or documented, no consistent methodology applied to internal audit engagements | Internal audit engagement process not clearly defined or Audit Work Plans not prepared for internal audit engagements | Reporting protocol not established for communicating results, reporting is ad hoc | No follow-up protocol established, follow-up on implementation of audit recommendations not performed consistently or not performed | No evaluation protocol established | Organisation Code of Conduct not established, IIA Code of Ethics does not receive formal attention |

Appendix E: Inherent Limitations & Restrictions on Use

This report has been prepared at the request of the BOD Alliance in connection with our engagement to perform an independent Quality Assessment of its Internal Audit function.

All information included in this report is proprietary and confidential and is intended for internal use by the BOD Alliance.

This report has been prepared solely for the use of management and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

We believe the statements made in this report are accurate, but no warranty of accuracy or reliability is given in relation to information and documentation provided by the BOD Alliance.

Our comments should be read in the context of the scope of our work as detailed in the terms of reference. Where possible, management representations are independently verified, though some findings in this report may have been prepared on the basis of management representations which have not been independently tested. Suggestions for improvement should be assessed by management for their full commercial impact before they are implemented.

Considerable professional judgment is involved in performing a Quality Assessment and developing this report. Accordingly, it should be recognised that others could evaluate the results differently and may draw different conclusions.

Dubbo Regional Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

"Great community, great council"



Dubbo Regional Council

General Purpose Financial Statements for the year ended 30 June 2018

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Overview

Dubbo Regional Council is constituted under the *Local Government Act 1993 (NSW)* and has its principal place of business at:

Church Street
Dubbo NSW 2830

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.dubbo.nsw.gov.au.

Dubbo Regional Council

General Purpose Financial Statements for the year ended 30 June 2018

Statement by Councillors and Management made pursuant to Section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

The attached General Purpose Financial Statements have been prepared in accordance with:

- the *Local Government Act 1993 (NSW)* (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the Local Government Code of Accounting Practice and Financial Reporting.

To the best of our knowledge and belief, these financial statements:

- present fairly the Council's operating result and financial position for the year,
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 10 September 2018.

Ben Shields
Mayor
10 September 2018

Annemarie Jones OAM
Councillor
10 September 2018

Michael McMahon
General Manager
10 September 2018

Jane Bassingthwaite
Responsible Accounting Officer
10 September 2018

Dubbo Regional Council

Income Statement

for the year ended 30 June 2018

| Original unaudited budget 2018 | \$ '000 | Notes | Actual 2018 | Actual 13/5/16 to 30/6/17 |
|--|---------|-------|----------------|---------------------------------|
| Income from continuing operations | | | | |
| Revenue: | | | | |
| 59,306 | | 3a | 56,909 | 59,787 |
| 38,329 | | 3b | 54,371 | 55,912 |
| 4,085 | | 3c | 6,494 | 6,291 |
| 6,163 | | 3d | 1,433 | 1,778 |
| 20,773 | | 3e,f | 30,703 | 37,994 |
| 25,166 | | 3e,f | 60,804 | 36,155 |
| Other income: | | | | |
| 250 | | 5 | 3,017 | 3,696 |
| — | | 14 | 151 | 183 |
| 154,072 | | | 213,882 | 201,796 |
| Expenses from continuing operations | | | | |
| 38,036 | | 4a | 37,187 | 43,183 |
| 3,864 | | 4b | 5,682 | 5,215 |
| 32,486 | | 4c | 32,936 | 38,940 |
| 32,749 | | 4d | 30,407 | 35,131 |
| 13,447 | | 4e | 16,069 | 18,056 |
| 120,582 | | | 122,281 | 140,525 |
| 33,490 | | | 91,601 | 61,271 |
| 33,490 | | | 91,601 | 61,271 |
| Gain on local government amalgamation | | | | |
| — | | | — | 2,266,670 |
| 33,490 | | | 91,601 | 2,327,941 |
| 33,490 | | | 91,601 | 2,327,941 |
| 8,324 | | | 30,797 | 25,116 |

This statement should be read in conjunction with the accompanying notes.

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Dubbo Regional Council

Statement of Comprehensive Income
for the year ended 30 June 2018

| \$ '000 | Notes | 2018 | 13/5/16 to 30/6/17 |
|---|-------|----------------|-----------------------|
| Net result for the year (as per Income Statement) | | 91,601 | 2,327,941 |
| Other comprehensive income: | | | |
| Amounts that will not be reclassified subsequently to the operating result | | | |
| Gain (loss) on revaluation of IPP&E | 9a | 47,062 | 122,836 |
| Impairment (loss) reversal relating to IPP&E | 9a | (255) | – |
| Total items which will not be reclassified subsequently to the operating result | | 46,807 | 122,836 |
| Amounts that will be reclassified subsequently to the operating result when specific conditions are met | | | |
| Nil | | | |
| Total other comprehensive income for the year | | 46,807 | 122,836 |
| Total comprehensive income for the year | | 138,408 | 2,450,777 |
| Total comprehensive income attributable to Council | | 138,408 | 2,450,777 |

This statement should be read in conjunction with the accompanying notes.

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Dubbo Regional Council

Statement of Financial Position
as at 30 June 2018

| \$ '000 | Notes | 2018 | 2017 |
|---|-------|------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 6a | 36,755 | 25,752 |
| Investments | 6b | 89,068 | 45,138 |
| Receivables | 7 | 21,379 | 18,198 |
| Inventories | 8 | 1,873 | 1,876 |
| Other | 8 | 663 | 463 |
| Total current assets | | 149,738 | 91,427 |
| Non-current assets | | | |
| Investments | 6b | 108,664 | 117,235 |
| Receivables | 7 | 629 | 755 |
| Inventories | 8 | 2,025 | 1,993 |
| Infrastructure, property, plant and equipment | 9 | 2,424,084 | 2,335,646 |
| Investments accounted for using the equity method | 14 | 1,484 | 1,333 |
| Other | 8 | 495 | 495 |
| Total non-current assets | | 2,537,381 | 2,457,457 |
| TOTAL ASSETS | | 2,687,119 | 2,548,884 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 10 | 12,038 | 7,688 |
| Income received in advance | 10 | 328 | 770 |
| Borrowings | 10 | 4,922 | 4,652 |
| Provisions | 11 | 13,765 | 15,047 |
| Total current liabilities | | 31,053 | 28,157 |
| Non-current liabilities | | | |
| Payables | 10 | 1 | 1 |
| Borrowings | 10 | 62,434 | 67,356 |
| Provisions | 11 | 4,446 | 2,593 |
| Total non-current liabilities | | 66,881 | 69,950 |
| TOTAL LIABILITIES | | 97,934 | 98,107 |
| Net assets | | 2,589,185 | 2,450,777 |
| EQUITY | | | |
| Accumulated surplus | 12 | 2,419,542 | 2,327,941 |
| Revaluation reserves | 12 | 169,643 | 122,836 |
| Total equity | | 2,589,185 | 2,450,777 |

This statement should be read in conjunction with the accompanying notes.

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Financial Statements 2018

Dubbo Regional Council

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

| \$ '000 | Notes | 2018 | IPP&E | Total equity | 13/5/16 | IPP&E | Total equity |
|--|-------|------------------------|------------------------|------------------|------------------|------------------------|------------------|
| | | Accumulated surplus | revaluation reserve | | to 30/6/17 | revaluation reserve | |
| Opening balance | | 2,327,941 | 122,836 | 2,450,777 | – | – | – |
| Net result for the year prior to correction of errors and changes in accounting policies | | 91,601 | – | 91,601 | 2,327,941 | – | 2,327,941 |
| Net result for the year | | 91,601 | – | 91,601 | 2,327,941 | – | 2,327,941 |
| Other comprehensive income | | | | | | | |
| – Gain (loss) on revaluation of IPP&E | 9a | – | 47,062 | 47,062 | – | 122,836 | 122,836 |
| – Impairment (loss) reversal relating to IPP&E | 9a | – | (255) | (255) | – | – | – |
| Other comprehensive income | | – | 46,807 | 46,807 | – | 122,836 | 122,836 |
| Total comprehensive income (c&d) | | 91,601 | 46,807 | 138,408 | 2,327,941 | 122,836 | 2,450,777 |
| Equity – balance at end of the reporting period | | 2,419,542 | 169,643 | 2,589,185 | 2,327,941 | 122,836 | 2,450,777 |

This statement should be read in conjunction with the accompanying notes.

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Dubbo Regional Council

Statement of Cash Flows

for the year ended 30 June 2018

| Original unaudited budget 2018 | \$ '000 | Notes | Actual 2018 | Actual 13/5/16 to 30/6/17 |
|---|---------|-------|-----------------|---------------------------------|
| Cash flows from operating activities | | | | |
| Receipts: | | | | |
| 59,271 | | | 56,224 | 66,266 |
| 38,038 | | | 57,957 | 57,616 |
| 4,368 | | | 6,404 | 6,163 |
| 41,548 | | | 71,141 | 66,592 |
| – | | | 216 | 305 |
| 7,824 | | | 6,003 | 8,062 |
| Payments: | | | | |
| (38,052) | | | (38,646) | (42,612) |
| (31,074) | | | (36,109) | (47,744) |
| (3,868) | | | (3,865) | (5,707) |
| (13,447) | | | (17,825) | (19,475) |
| 64,608 | | 13b | 101,500 | 89,466 |
| Cash flows from investing activities | | | | |
| Receipts: | | | | |
| 19,069 | | | 220,916 | 88,594 |
| 711 | | | 4,460 | 4,962 |
| 1,744 | | | 1,672 | 2,562 |
| – | | | 579 | 80 |
| Payments: | | | | |
| – | | | (256,275) | (122,268) |
| (85,309) | | | (56,062) | (52,872) |
| – | | | (1,210) | (860) |
| – | | | 75 | (472) |
| (63,785) | | | (85,845) | (80,274) |
| Cash flows from financing activities | | | | |
| Receipts: | | | | |
| 1,500 | | | – | – |
| Payments: | | | | |
| (4,322) | | | (4,652) | (5,434) |
| (2,822) | | | (4,652) | (5,434) |
| (1,999) | | | 11,003 | 3,758 |
| 3,956 | | 13a | 25,752 | – |
| – | | | – | 21,994 |
| 1,957 | | 13a | 36,755 | 25,752 |
| Additional Information: | | | | |
| | | 6b | 197,732 | 162,373 |
| | | | 234,487 | 188,125 |

This statement should be read in conjunction with the accompanying notes.

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Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

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Dubbo Regional Council

Notes to the Financial Statements for the period 1 July 2017 to 30 June 2018

Note 1. Summary of significant accounting policies (continued)

These financial statements were authorised for issue by Dubbo Regional Council on 10/09/2018. Council has the power to amend and reissue these financial statements

The principal accounting policies adopted 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.

These general purpose financial statements have been prepared in accordance with:

- Australian Accounting Standards and Australian Accounting Interpretations issued by the Australian Accounting Standards Board,
- the Local Government Act 1993 (NSW) and Regulations, and
- the Local Government Code of Accounting Practice and Financial Reporting.

Council is deemed to be a not for-profit entity for the purpose of preparing these financial statements.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

(i) New and amended standards adopted by Council

There have been no new accounting standards adopted in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

(ii) Early adoption of standards

Council has not elected to apply any pronouncements before their operative date in the reporting period beginning 1 July 2017.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention except for:

- certain financial assets and liabilities at fair value through profit or loss and available-for-

sale financial assets, which are all valued at fair value,

- the write down of any asset on the basis of impairment (if warranted), and
- certain classes of non-current assets (eg. infrastructure, property, plant and equipment and investment property) that are accounted for at fair valuation.

The accrual basis of accounting has also been applied in their preparation.

(iv) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates (in conformity with AASBs).

Accordingly this requires management to exercise its judgement in the process of applying the Council's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Council and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) Estimated fair values of Infrastructure, Property, Plant and Equipment,
- (ii) Estimated remediation provisions.

Significant judgements in applying the Council's accounting policies

- (i) Impairment of Receivables

Dubbo Regional Council

Notes to the Financial Statements for the period 1 July 2017 to 30 June 2018

Note 1. Summary of significant accounting policies (continued)

Council has made a significant judgement about the impairment of a number of its receivables in Note 7.

Monies and other assets received by Council

These consolidated financial statements include the financial position and performance of controlled entities from the date on which control is obtained until the date that control is lost.

In the process of reporting on Council's activities as a single unit, all inter-entity year end balances and reporting period transactions have been eliminated in full between Council and its controlled entities.

(i) The consolidated fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's consolidated fund unless it is required to be held in the Council's trust fund.

The consolidated fund and other entities through which the Council controls resources to carry on its functions have been included in the financial statements forming part of this report.

The following entities have been included as part of the consolidated fund:

- General purpose operations
- Water service
- Sewerage service

(ii) The trust fund

In accordance with the provisions of Section 411 of the Local Government Act 1993 (NSW) (as amended), a separate and distinct trust fund is maintained to account for all money and property received by the Council in trust which must be applied only for the purposes of, or in accordance with the trusts relating to those monies.

Trust monies and property subject to Council's control have been included in these reports.

Trust monies and property held by Council but not subject to the control of Council have been excluded from these reports.

A separate statement of monies held in the trust fund is available for inspection at the Council office by any person free of charge.

Goods and services tax (GST)

Income, expenses and assets are all recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO).

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the revenue / expense.

Receivables and payables within the statement of financial position are stated inclusive of any applicable GST.

The net amount of GST recoverable from or payable to the ATO is included as a current asset or current liability in the statement of financial position.

Operating cash flows within the statement of cash flows are on a gross basis, i.e. they are inclusive of GST where applicable.

Investing and financing cash flows are treated on a net basis (where recoverable from the ATO), i.e. they are exclusive of GST. Instead, the GST component of investing and financing activity cash flows that are recoverable from or payable to the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from (or payable to) the ATO.

New accounting standards and interpretations issued not yet effective

Certain new (or amended) accounting standards and interpretations have been published that are not mandatory for the current reporting period.

Council has not adopted any of these standards early.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 2(a). Council functions/activities – financial information

| Functions/activities | Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b). | | | | | | | | | |
|--|--|--------------------|-------------------------------------|--------------------|---|--------------------|--|--------------------|---|------------------|
| | Income from continuing operations | | Expenses from continuing operations | | Operating result from continuing operations | | Grants included in income from continuing operations | | Total assets held (current and non-current) | |
| | 2018 | 13/5/16 to 30/6/17 | 2018 | 13/5/16 to 30/6/17 | 2018 | 13/5/16 to 30/6/17 | 2018 | 13/5/16 to 30/6/17 | 2018 | 2017 |
| Governance | – | 200 | 303 | 4,565 | (303) | (4,365) | – | – | – | – |
| Administration | 1,715 | 21,085 | 1,284 | 7,184 | 431 | 13,901 | – | 21,018 | 687,041 | 591,058 |
| Public order and safety | 2,757 | 1,485 | 4,021 | 4,143 | (1,264) | (2,658) | 1,074 | 1,131 | 10,551 | 11,856 |
| Health | 13 | 169 | 353 | 332 | (340) | (163) | – | – | – | – |
| Environment | 19,307 | 13,240 | 11,023 | 11,850 | 8,284 | 1,390 | 104 | 122 | 202,579 | 194,295 |
| Community services and education | 3,519 | 5,914 | 4,751 | 5,602 | (1,232) | 312 | 2,241 | 2,139 | – | 882 |
| Housing and community amenities | 1,445 | 1,671 | 4,157 | 4,366 | (2,712) | (2,695) | – | 221 | 3,356 | 6,068 |
| Water supplies | 30,953 | 28,488 | 18,950 | 19,897 | 12,003 | 8,591 | 121 | 143 | 307,866 | 291,050 |
| Sewerage services | 21,627 | 22,626 | 12,976 | 16,213 | 8,651 | 6,413 | 121 | 206 | 334,015 | 321,942 |
| Recreation and culture | 18,172 | 6,003 | 21,527 | 22,064 | (3,355) | (16,061) | 12,993 | 813 | 26,499 | 40,326 |
| Mining, manufacturing and construction | 1,184 | 1,170 | 2,034 | 2,155 | (850) | (985) | – | – | 1,012 | 1,997 |
| Transport and communication | 51,575 | 32,692 | 31,158 | 32,963 | 20,417 | (271) | 22,067 | 9,658 | 1,067,135 | 1,047,479 |
| Economic affairs | 15,001 | 14,502 | 9,744 | 9,191 | 5,257 | 5,311 | 2,789 | 708 | 45,581 | 40,598 |
| Share of gains/(losses) in associates and joint ventures (using the equity method) | 151 | 183 | – | – | 151 | 183 | – | – | 1,484 | 1,333 |
| General purpose income | 46,463 | 52,369 | – | – | 46,463 | 52,369 | 11,716 | 16,401 | – | – |
| Total functions and activities | 213,882 | 201,797 | 122,281 | 140,525 | 91,601 | 61,272 | 53,226 | 52,560 | 2,687,119 | 2,548,884 |

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 2(b). Council functions/activities – component descriptions

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Governance

Includes costs relating to Council's role as a component of democratic government, including elections, members' fees and expenses, subscriptions to local authority associations, meetings of Council and policy-making committees, public disclosure (e.g. GIPA), and legislative compliance.

Administration

Includes corporate support and other support services, engineering works, and any Council policy compliance.

Public order and safety

Includes Council's fire and emergency services levy, fire protection, emergency services, beach control, enforcement of regulations and animal control.

Health

Includes immunisation, food control, health centres etc.

Environment

Includes noxious plants and insect/vermin control; other environmental protection; solid waste management, including domestic waste; other waste management; other sanitation; and garbage, street cleaning, drainage and stormwater management.

Community services and education

Includes administration and education; social protection (welfare); migrant, Aboriginal and other community services and administration (excluding accommodation – as it is covered under 'housing and community amenities'); youth services; aged and disabled persons services; children's' services, including family day care; child care; and other family and children services.

Housing and community amenities

Includes public cemeteries; public conveniences; street lighting; town planning; other community amenities, including housing development and accommodation for families and children, aged persons, disabled persons, migrants and Indigenous persons.

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 2(b). Council functions/activities – component descriptions (continued)

Details relating to the Council's functions/activities as reported in Note 2(a) are as follows:

Water supplies

Provide safe reliable and cost effective water supply that caters for the sustainable growth.

Sewerage services

Provision of an environmentally responsible sewerage service that maintains the health of the community cost effectively, and caters for the sustainable growth.

Recreation and culture

Includes public libraries; museums; art galleries; community centres and halls, including public halls and performing arts venues; sporting grounds and venues; swimming pools; parks; gardens; lakes; and other sporting, recreational and cultural services.

Mining, manufacturing and construction

Includes building control, quarries and pits, mineral resources, and abattoirs.

Transport and communication

Urban local, urban regional, includes sealed and unsealed roads, bridges, footpaths, parking areas, and aerodromes.

Economic affairs

Includes camping areas and caravan parks; tourism and area promotion; industrial development promotion; sale yards and markets; real estate development; commercial nurseries; and other business undertakings.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|--|---------------|-----------------------|
| (a) Rates and annual charges | | |
| Ordinary rates | | |
| Residential | 17,096 | 18,842 |
| Farmland | 5,764 | 5,527 |
| Mining | 2 | 2 |
| Business | 7,964 | 8,121 |
| Total ordinary rates | 30,826 | 32,492 |
| Special rates | | |
| Sewerage services | – | 1,461 |
| Emergency services | – | 140 |
| Total special rates | – | 1,601 |
| Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611) | | |
| Domestic waste management services | 5,821 | 6,425 |
| Stormwater management services | – | 36 |
| Water supply services | 6,364 | 5,701 |
| Sewerage services | 11,867 | 11,382 |
| Drainage | 1,393 | 1,491 |
| Waste management services (non-domestic) | 638 | 659 |
| Total annual charges | 26,083 | 25,694 |
| TOTAL RATES AND ANNUAL CHARGES | 56,909 | 59,787 |

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and annual charges

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. Developer contributions may only be expended for the purposes for which the contributions were required, but the Council may apply contributions according to the priorities established in work schedules.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|--|---------------|-----------------------|
| (b) User charges and fees | | |
| Specific user charges (per s.502 – specific 'actual use' charges) | | |
| Domestic waste management services | – | 101 |
| Water supply services | 18,515 | 17,470 |
| Sewerage services | 4,642 | 4,804 |
| Waste management services (non-domestic) | 3,229 | 2,381 |
| Total specific user charges | 26,386 | 24,756 |
| Other user charges and fees | | |
| (i) Fees and charges – statutory and regulatory functions (per s.608) | | |
| Planning and building regulation | – | 95 |
| Private works – section 67 | – | 76 |
| Regulatory/ statutory fees | 2,346 | 2,474 |
| Registration fees | – | 13 |
| Section 149 certificates (EPA Act) | – | 54 |
| Section 603 certificates | – | 20 |
| Other | – | 13 |
| Total fees and charges – statutory/regulatory | 2,346 | 2,745 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|---|---------------|-----------------------|
| (b) User charges and fees (continued) | | |
| (ii) Fees and charges – other (incl. general user charges (per s.608)) | | |
| Aerodrome | 3,913 | 4,356 |
| Caravan park | 2,251 | 2,195 |
| Cemeteries | 377 | 466 |
| Leaseback fees – Council vehicles | 334 | 336 |
| Multipurpose centre | – | 24 |
| Park rents | – | 36 |
| RMS (formerly RTA) charges (state roads not controlled by Council) | 7,360 | 9,240 |
| Swimming centres | – | 81 |
| Tourism | 96 | 132 |
| Water service connections | 48 | 46 |
| Caves entry fees | 470 | 470 |
| Other | 107 | – |
| Aquatic leisure centre | 425 | 330 |
| Family day care | 341 | 414 |
| Fodder sales 'greengrove' effluent reuse property | 450 | 148 |
| Old dubbo gaol | 579 | 621 |
| Private works | 371 | 735 |
| Public halls | 1,672 | 1,618 |
| Rainbow cottage long day care centre | 640 | 727 |
| Regional livestock markets | 4,097 | 3,856 |
| Sewer plan drafting fees | 128 | 129 |
| Showground | 212 | 302 |
| Sporting facilities | 180 | 316 |
| Other | 1,588 | 1,833 |
| Total fees and charges – other | 25,639 | 28,411 |
| TOTAL USER CHARGES AND FEES | 54,371 | 55,912 |

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|---|--------------|-----------------------|
| (c) Interest and investment revenue (including losses) | | |
| Interest | | |
| – Overdue rates and annual charges (incl. special purpose rates) | 214 | 236 |
| – Cash and investments | 6,147 | 6,011 |
| – Deferred debtors | 14 | – |
| – Other | 44 | 41 |
| Fair value adjustments | | |
| – Fair valuation movements in investments (at fair value or held for trading) | – | (48) |
| Amortisation of premiums and discounts | | |
| – Interest free (and interest reduced) loans provided | 75 | 51 |
| TOTAL INTEREST AND INVESTMENT REVENUE | 6,494 | 6,291 |
| Interest revenue is attributable to: | | |
| Unrestricted investments/financial assets: | | |
| Overdue rates and annual charges (general fund) | 113 | 212 |
| General Council cash and investments | 3,808 | 3,264 |
| Restricted investments/funds – external: | | |
| Development contributions | | |
| – Section 7.11 | 243 | 228 |
| – Section 64 | 41 | 74 |
| Water fund operations | 946 | 883 |
| Sewerage fund operations | 1,343 | 1,630 |
| Total interest and investment revenue recognised | 6,494 | 6,291 |

Accounting policy for interest and investment revenue

Interest income is recognised using the effective interest rate at the date that interest is earned.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | Notes | 2018 | 13/5/16 to 30/6/17 |
|---|-------|--------------|-----------------------|
| (d) Other revenues | | | |
| Rental income – other council properties | | 479 | 600 |
| Fines | | 182 | 234 |
| Legal fees recovery – rates and charges (extra charges) | | – | 132 |
| Commissions and agency fees | | 8 | 12 |
| Insurance claim recoveries | | 110 | 296 |
| Sales – general | | – | 9 |
| Caves / caravan park kiosk – sales | | 146 | 133 |
| OH&S training | | – | 9 |
| Other revenues from local organisations | | – | 197 |
| Evocities reimbursement of expenses | | – | 47 |
| Other | | 508 | 109 |
| TOTAL OTHER REVENUE | | 1,433 | 1,778 |

Accounting policy for other revenue

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Council and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Parking fees and fines are recognised as revenue when the service has been provided, or when the penalty has been applied, whichever occurs first.

Rental income is accounted for on a straight-line basis over the lease term.

Miscellaneous sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

Other income is recorded when the payment is due, the value of the payment is notified, or the payment is received, whichever occurs first.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 Operating | 13/5/16 to 30/6/17 Operating | 2018 Capital | 13/5/16 to 30/6/17 Capital |
|--|-------------------|------------------------------------|-----------------|----------------------------------|
| (e) Grants | | | | |
| General purpose (untied) | | | | |
| Current year allocation | | | | |
| Financial assistance – general component | 3,967 | 11,381 | – | – |
| Financial assistance – local roads component | 1,685 | 4,681 | – | – |
| Payment in advance – future year allocation | | | | |
| Financial assistance – general component | 4,072 | – | – | – |
| Financial assistance – local roads component | 1,697 | – | – | – |
| Other | | | | |
| Pensioners' rates subsidies – general component | 295 | 339 | – | – |
| Total general purpose | 11,716 | 16,401 | – | – |
| Specific purpose | | | | |
| Pensioners' rates subsidies: | | | | |
| – Water | 121 | 143 | – | – |
| – Sewerage | 121 | 134 | – | – |
| – Domestic waste management | 104 | 122 | – | – |
| Sewerage services | – | – | – | 72 |
| Bushfire and emergency services | 16 | 656 | 119 | 475 |
| Economic development | – | – | – | 177 |
| Employment and training programs | – | 29 | – | – |
| Flood restoration | 839 | 2,598 | – | – |
| Heritage and cultural | 114 | 121 | – | – |
| Library | 164 | 251 | – | – |
| Noxious weeds | 100 | 84 | – | – |
| Recreation and culture | – | – | – | 441 |
| Street lighting | 196 | 221 | – | – |
| Transport (roads to recovery) | 2,855 | 4,374 | – | – |
| Transport (other roads and bridges funding) | 84 | 93 | 10,865 | 2,270 |
| Local infrast. renewal scheme interest subsidy | – | – | 397 | 583 |
| Tourism | – | 4 | 2,789 | 161 |
| New council implementation fund | – | 5,000 | – | – |
| Stronger communities fund | – | 1,000 | – | 9,000 |
| Livestock markets | – | – | – | 2,962 |
| Community services | 262 | 432 | – | 1,929 |
| Family day care | 1,392 | 1,707 | – | – |
| Paid parental leave | 72 | 83 | – | – |
| Rainbow cottage long day care centre | 515 | 547 | – | – |
| Sporting facilities | – | – | 12,715 | – |
| Other | 27 | 337 | 7,643 | 153 |
| Total specific purpose | 6,982 | 17,936 | 34,528 | 18,223 |
| Total grants | 18,698 | 34,337 | 34,528 | 18,223 |
| Grant revenue is attributable to: | | | | |
| – Commonwealth funding | 14,342 | 19,140 | 10,574 | – |
| – State funding | 4,356 | 15,197 | 23,954 | 18,223 |
| | 18,698 | 34,337 | 34,528 | 18,223 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | Notes | 2018 Operating | 13/5/16 to 30/6/17 Operating | 2018 Capital | 13/5/16 to 30/6/17 Capital |
|--|-------|-------------------|------------------------------------|-----------------|----------------------------------|
| (f) Contributions | | | | | |
| Developer contributions: | | | | | |
| (s7.4 & s7.11 – EP&A Act, s64 of the LGA): | | | | | |
| Cash contributions | | | | | |
| S 7.11 – contributions towards amenities/services | | – | – | – | 13 |
| S 7.12 – fixed development consent levies | | – | – | – | 9 |
| S 7.11 – open space | | – | – | 865 | 1,040 |
| S 7.11 – drainage | | – | – | 166 | 343 |
| S 7.11 – roadworks | | – | – | 1,476 | 1,902 |
| S 64 – water supply contributions | | – | – | 2,257 | 1,967 |
| S 64 – sewerage service contributions | | – | – | 1,575 | 1,864 |
| Voluntary planning agreements | | – | – | 136 | 67 |
| Total developer contributions – cash | | – | – | 6,475 | 7,205 |
| Total developer contributions | 21 | – | – | 6,475 | 7,205 |
| Other contributions: | | | | | |
| Cash contributions | | | | | |
| RMS contributions (regional roads, block grant) | | 11,903 | 3,368 | – | 45 |
| Oval sponsorship | | – | 47 | – | – |
| Sporting facilities | | – | – | 25 | 22 |
| Infrastructure contributions (non-cash) – water | | – | – | 1,011 | 766 |
| Infrastructure contributions (non-cash) – sewerage | | – | – | 1,851 | 394 |
| Infrastructure contributions (non-cash) – drainage | | – | – | 6,464 | 1,649 |
| Infrastructure contributions (non-cash) – roadworks | | – | – | 8,641 | 6,297 |
| Infrastructure contributions (non-cash) – land under roads | | – | – | 1,750 | 1,474 |
| Evocities MTB sponsorship | | – | 14 | – | – |
| Other | | 102 | 228 | 59 | 80 |
| Total other contributions – cash | | 12,005 | 3,657 | 19,801 | 10,727 |
| Total other contributions | | 12,005 | 3,657 | 19,801 | 10,727 |
| Total contributions | | 12,005 | 3,657 | 26,276 | 17,932 |
| TOTAL GRANTS AND CONTRIBUTIONS | | 30,703 | 37,994 | 60,804 | 36,155 |

Accounting policy for contributions

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner or used over a particular period and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed above.

A liability is recognised in respect of revenue that is reciprocal in nature to the extent that the requisite service has not been provided at reporting date.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|--|----------------------|-----------------------|
| (g) Unspent grants and contributions | | |
| Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner: | | |
| Capital grants | | |
| Unexpended at the close of the previous reporting period | 33,385 | 17,279 |
| Add: capital grants recognised in the current period but not yet spent | 29,585 | 19,824 |
| Less: capital grants recognised in a previous reporting period now spent | (10,867) | (3,718) |
| Unexpended and held as restricted assets (capital grants) | <u>52,103</u> | <u>33,385</u> |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 4. Expenses from continuing operations

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|--|---------------|-----------------------|
| (a) Employee benefits and on-costs | | |
| Salaries and wages | 33,630 | 36,484 |
| Employee termination costs (where material – other than vested leave paid) | – | 74 |
| Travel expenses | 300 | 419 |
| Employee leave entitlements (ELE) | 3,830 | 4,208 |
| Superannuation | 3,770 | 4,154 |
| Workers' compensation insurance | 937 | 1,155 |
| Fringe benefit tax (FBT) | 167 | 259 |
| Payroll tax | 220 | 392 |
| Training costs (other than salaries and wages) | 516 | 370 |
| Other | 237 | 282 |
| Total employee costs | 43,607 | 47,797 |
| Less: capitalised costs | (6,420) | (4,614) |
| TOTAL EMPLOYEE COSTS EXPENSED | 37,187 | 43,183 |
| Number of 'full-time equivalent' employees (FTE) at year end | 481 | 432 |

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation plans

Contributions to defined contribution plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Council participates in a Defined Benefit Plan under the Local Government Superannuation Scheme, however, when sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 16 for more information.

(b) Borrowing costs**(i) Interest bearing liability costs**

| | | |
|--|--------------|--------------|
| Interest on loans | 4,268 | 5,150 |
| Total interest bearing liability costs expensed | 4,268 | 5,150 |

(ii) Other borrowing costs

| | | |
|---|--------------|--------------|
| Discount adjustments relating to movements in provisions (other than ELE) | | |
| – Remediation liabilities | 1,414 | 65 |
| Total other borrowing costs | 1,414 | 65 |
| TOTAL BORROWING COSTS EXPENSED | 5,682 | 5,215 |

Accounting policy for borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|--|---------------|-----------------------|
| (c) Materials and contracts | | |
| Raw materials and consumables | 18,860 | 25,166 |
| Contractor and consultancy costs | 13,485 | 13,031 |
| – contractor and consultancy costs (internal audit BDO alliance) | 65 | 65 |
| Auditors remuneration ⁽²⁾ | 105 | 179 |
| Legal expenses: | | |
| – Legal expenses: planning and development | 31 | 8 |
| – Legal expenses: debt recovery | 9 | 126 |
| – Legal expenses: other | 70 | 69 |
| Operating leases: | | |
| – Operating lease rentals: minimum lease payments ⁽¹⁾ | 311 | 296 |
| TOTAL MATERIALS AND CONTRACTS | 32,936 | 38,940 |

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

1. Operating lease payments are attributable to:

| | | |
|-----------|------------|------------|
| Computers | 311 | 296 |
| | 311 | 296 |

2. Auditor remuneration

During the year the following fees were paid or payable for services provided by the auditor of Council, related practices and non-related audit firms

Auditors of the Council – NSW Auditor-General:**(i) Audit and other assurance services**

| | | |
|--|------------|------------|
| Audit and review of financial statements | 105 | 104 |
| Remuneration for audit and other assurance services | 105 | 104 |
| Total Auditor-General remuneration | 105 | 104 |

Non NSW Auditor-General audit firms:**(i) Audit and other assurance services**

| | | |
|--|----------|-----------|
| Audit and review of financial statements | – | 75 |
| Remuneration for audit and other assurance services | – | 75 |
| Total remuneration of non NSW Auditor-General audit firms | – | 75 |

| | | |
|-----------------------------------|------------|------------|
| Total Auditor remuneration | 105 | 179 |
|-----------------------------------|------------|------------|

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

| \$ '000 | Notes | 2018 | 13/5/16 to 30/6/17 |
|--|---------|---------------|-----------------------|
| (d) Depreciation, amortisation and impairment | | | |
| Depreciation and amortisation | | | |
| Plant and equipment | | 3,792 | 4,074 |
| Office equipment | | 296 | 209 |
| Furniture and fittings | | 271 | 226 |
| Land improvements (depreciable) | | 305 | 378 |
| Infrastructure: | | | |
| – Buildings – non-specialised | | 429 | 524 |
| – Buildings – specialised | | 2,202 | 2,218 |
| – Other structures | | 3,434 | 3,873 |
| – Roads | | 9,361 | 12,009 |
| – Airport runways | | 429 | 460 |
| – Stormwater drainage | | 987 | 1,152 |
| – Water supply network | | 5,067 | 4,543 |
| – Sewerage network | | 4,902 | 5,952 |
| – Swimming pools | | 100 | 118 |
| – Other open space/recreational assets | | – | 151 |
| Other assets: | | | |
| – Heritage collections | | – | 1 |
| – Library books | | – | 1 |
| – Other | | 44 | 55 |
| Reinstatement, rehabilitation and restoration assets: | | | |
| – Tip assets | 10 & 14 | 169 | 154 |
| Total gross depreciation and amortisation costs | | 31,788 | 36,098 |
| Less: capitalised costs | | (1,381) | (967) |
| Total depreciation and amortisation costs | | 30,407 | 35,131 |
| <u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED</u> | | | |
| | | 30,407 | 35,131 |

Accounting policy for depreciation, amortisation and impairment expenses**Depreciation and amortisation**

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

(d) Depreciation, amortisation and impairment (continued)

Impairment of non-financial assets (continued)

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

Impairment of financial assets

Council assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|--|---------------|-----------------------|
| (e) Other expenses | | |
| Advertising | 683 | 877 |
| Bad and doubtful debts | 418 | 11 |
| Bank charges | – | 34 |
| Contributions/levies to other levels of government | | |
| – Other contributions/levies | – | 157 |
| Councillor expenses – councillors' fees/committee fees | 244 | 403 |
| Councillors' and committee expenses (incl. mayor) – other (excluding fe | 147 | 64 |
| Donations, contributions and assistance to other organisations (Section 356) | 2,858 | 3,254 |
| Election expenses | 303 | – |
| Electricity and heating | 3,380 | 3,637 |
| Insurance | 1,814 | 2,161 |
| Postage | 136 | 214 |
| Printing and stationery | 459 | 480 |
| Street lighting | 1,200 | 1,225 |
| Telephone and communications | 410 | 649 |
| Valuation fees | 158 | 114 |
| Vehicle registration | 201 | 260 |
| Water resource charge | 376 | 371 |
| Contributions to emergency services | 1,056 | 1,036 |
| Credit card merchant fees | 18 | 36 |
| Family day care – fee relief | 1,228 | 1,499 |
| Property rental | 48 | 105 |
| Subscription shires association | 49 | 41 |
| Other | 883 | 1,428 |
| TOTAL OTHER EXPENSES | 16,069 | 18,056 |

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 5. Gains or losses from the disposal of assets

| \$ '000 | Notes | 2018 | 13/5/16 to 30/6/17 |
|--|-------|--------------|-----------------------|
| Plant and equipment | | | |
| Proceeds from disposal – plant and equipment | 10 | 1,672 | 2,562 |
| Less: carrying amount of plant and equipment assets sold/written off | | (1,417) | (2,389) |
| Net gain/(loss) on disposal | | 255 | 173 |
| Infrastructure | | | |
| Less: carrying amount of infrastructure assets sold/written off | 10 | (583) | (705) |
| Net gain/(loss) on disposal | | (583) | (705) |
| Real estate assets held for sale | | | |
| Proceeds from disposal – real estate assets | 8 | 4,460 | 4,962 |
| Less: carrying amount of real estate assets sold/written off | | (1,115) | (734) |
| Net gain/(loss) on disposal | | 3,345 | 4,228 |
| Financial assets ⁽¹⁾ | | | |
| Proceeds from disposal/redemptions/maturities – financial assets | 6 | 220,916 | 88,594 |
| Less: carrying amount of financial assets sold/redeemed/matured | | (220,916) | (88,594) |
| Net gain/(loss) on disposal | | – | – |
| NET GAIN/(LOSS) ON DISPOSAL OF ASSETS | | 3,017 | 3,696 |

Accounting policy for disposal of assets

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is derecognised.

Note 6(a). Cash and cash equivalent assets

| | | | |
|--|--|---------------|---------------|
| Cash and cash equivalents | | | |
| Cash on hand and at bank | | 216 | 24 |
| Cash-equivalent assets | | | |
| – Deposits at call | | 36,539 | 25,728 |
| Total cash and cash equivalents | | 36,755 | 25,752 |

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 6(b). Investments

| \$ '000 | 2018 | | 2017 | |
|--|----------------|----------------|---------------|----------------|
| | Current | Non-current | Current | Non-current |
| Investments | | | | |
| 'Held to maturity' | 89,068 | 108,664 | 45,138 | 117,235 |
| Total investments | 89,068 | 108,664 | 45,138 | 117,235 |
| TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS | 125,823 | 108,664 | 70,890 | 117,235 |
| Held to maturity investments | | | | |
| Long term deposits | 85,818 | 94,663 | 41,138 | 99,983 |
| NCD's, FRN's (with maturities > 3 months) | 3,250 | 14,001 | 4,000 | 17,252 |
| Total | 89,068 | 108,664 | 45,138 | 117,235 |

Accounting policy for investments**Classification**

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Impairment of available for sale investments

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 6(c). Restricted cash, cash equivalents and investments – details

| \$ '000 | 2018 | | 2017 | |
|---|----------------|----------------|---------------|----------------|
| | Current | Non-current | Current | Non-current |
| Total cash, cash equivalents and investments | 125,823 | 108,664 | 70,890 | 117,235 |
| attributable to: | | | | |
| External restrictions (refer below) | 36,282 | 108,664 | 31,910 | 80,392 |
| Internal restrictions (refer below) | 86,541 | – | 35,154 | 36,843 |
| Unrestricted | 3,000 | – | 3,826 | – |
| | 125,823 | 108,664 | 70,890 | 117,235 |

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

Details of restrictions

External restrictions – other

| | | |
|--------------------------------------|----------------|----------------|
| Developer contributions – general | 13,622 | 11,193 |
| Developer contributions – water fund | – | 178 |
| Developer contributions – sewer fund | – | 238 |
| Specific purpose unexpended grants | 38,481 | 21,776 |
| Water supplies | 39,548 | 31,526 |
| Sewerage services | 48,036 | 40,939 |
| Domestic waste management | 2,429 | 3,248 |
| Stormwater management | 2,830 | 3,204 |
| External restrictions – other | 144,946 | 112,302 |
| Total external restrictions | 144,946 | 112,302 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 6(c). Restricted cash, cash equivalents and investments – details (continued)

| \$ '000 | 2018 | 2017 |
|--|-------|-------|
| Internal restrictions | | |
| Employees leave entitlement | 3,931 | 4,351 |
| Financial accounting services | – | 1 |
| Human resource services | – | 375 |
| Information management services | – | 1,762 |
| Governance and risk services | – | 554 |
| Civic administration building | – | 1,301 |
| Technical support services | – | 826 |
| Business support services (technical) | – | 6 |
| Depot services | – | 1,001 |
| Wellington caves complex | – | 43 |
| Works services | – | 537 |
| Governance | 2,300 | 429 |
| Federal financial assistance grant (advance receipt) | 5,769 | 5,466 |
| Sporting facilities | – | 1,312 |
| Parks and landcare business support services | – | 104 |
| Landcare services | – | 343 |
| Horticultural services | – | 765 |
| Human environment services | – | 123 |
| Western plains cultural centre | – | 1,007 |
| Cemeteries | – | 624 |
| Regional theatre and convention centre | – | 544 |
| Cultural services | – | 71 |
| Family day care | – | 276 |
| Rainbow cottage | – | 200 |
| Social services | – | 252 |
| Old dubbo gaol | – | 246 |
| Library services | – | 164 |
| Recreation planning and programmes | – | 210 |
| Ranger services | – | 15 |
| City strategy | – | 650 |
| Building and development services | – | 598 |
| Environment and health services | – | 30 |
| Showground | – | 72 |
| City marketing and communications | – | 193 |
| Dubbo city holiday park | 673 | 431 |
| Property development | 5,394 | 2,648 |
| City development | – | 189 |
| Dubbo city regional airport | 20 | 1,066 |
| Livestock markets | 3,973 | 3,183 |
| Fire services | – | 482 |
| Other waste management services | 3,737 | 3,762 |
| Road network – rural roads | – | 4,578 |
| Emergency management | – | 94 |
| Road network – urban roads | – | 5,431 |
| Road network – state roads | 2,756 | 1,312 |
| Street lighting | – | 461 |
| Traffic management | – | 126 |
| Footpath and cycleways | – | 567 |
| Environmental sustainability services | – | 15 |

(continued on the next page...)

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 6(c). Restricted cash, cash equivalents and investments – details (continued)

| \$ '000 | 2018 | 2017 |
|--|----------------|----------------|
| Internal restrictions (continued) | | |
| Corporate development/strategic management | – | 135 |
| Animal shelter | – | 463 |
| Recreation services | – | 88 |
| Employee overheads | – | 441 |
| Stormwater | – | 14 |
| Rates and general revenue | – | 8,555 |
| Corporate overheads | – | 2,286 |
| Dubbo aquatic leisure centre | – | 378 |
| Fleet management services | 10,781 | 10,841 |
| Future Asset Renewal | 47,207 | – |
| Total internal restrictions | 86,541 | 71,997 |
| TOTAL RESTRICTIONS | 231,487 | 184,299 |

Note 7. Receivables

| \$ '000 | 2018 | | 2017 | |
|---|---------------|-------------|---------------|-------------|
| | Current | Non-current | Current | Non-current |
| Purpose | | | | |
| Rates and annual charges | 2,536 | – | 1,851 | – |
| Interest and extra charges | 360 | – | 402 | – |
| User charges and fees | 9,833 | – | 10,687 | – |
| Private works | – | – | 10 | – |
| Accrued revenues | | | | |
| – Interest on investments | 2,026 | – | 1,969 | – |
| Deferred debtors | 434 | 629 | 887 | 755 |
| Government grants and subsidies | 3,945 | – | 899 | – |
| Net GST receivable | 912 | – | 444 | – |
| Due from other levels of government | 29 | – | 158 | – |
| Other debtors | 1,737 | – | 937 | – |
| Total | 21,812 | 629 | 18,244 | 755 |
| Less: provision for impairment | | | | |
| User charges and fees | (433) | – | (46) | – |
| Total provision for impairment – receivables | (433) | – | (46) | – |
| TOTAL NET RECEIVABLES | 21,379 | 629 | 18,198 | 755 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 7. Receivables (continued)

| \$ '000 | 2018 | | 2017 | |
|--|---------------|-------------|---------------|-------------|
| | Current | Non-current | Current | Non-current |
| Externally restricted receivables | | | | |
| Water supply | | | | |
| – Rates and availability charges | 309 | – | 159 | – |
| – Other | 6,770 | – | 4,585 | – |
| Sewerage services | | | | |
| – Rates and availability charges | 1,926 | – | 401 | – |
| – Other | 542 | – | 1,933 | – |
| Total external restrictions | 9,547 | – | 7,078 | – |
| Internally restricted receivables | | | | |
| | – | – | – | – |
| Unrestricted receivables | 11,832 | 629 | 11,120 | 755 |
| TOTAL NET RECEIVABLES | 21,379 | 629 | 18,198 | 755 |

| Movement in provision for impairment of receivables | 2018 | 13/5/16 to 30/6/17 |
|--|--------------------------------------|-----------------------|
| | Balance at the beginning of the year | 46 |
| + new provisions recognised during the year | 419 | – |
| – amounts already provided for and written off this year | (32) | 15 |
| – previous impairment losses reversed | – | (202) |
| Balance at the end of the year | 433 | 46 |

Accounting policy for receivables**Recognition and measurement**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in other receivables (Note 8) and receivables (Note 7) in the Statement of Financial Position. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Impairment

For loans and receivables the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Collectability of receivables is reviewed on an on-going basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that Council will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income statement.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 8. Inventories and other assets

| \$ '000 | 2018 | | 2017 | |
|---|--------------|--------------|--------------|--------------|
| | Current | Non-current | Current | Non-current |
| (a) Inventories | | | | |
| (i) Inventories at cost | | | | |
| Real estate for resale (refer below) | 773 | 2,025 | 719 | 1,993 |
| Stores and materials | 1,029 | – | 1,078 | – |
| Trading stock | 71 | – | 79 | – |
| Total inventories at cost | 1,873 | 2,025 | 1,876 | 1,993 |
| TOTAL INVENTORIES | 1,873 | 2,025 | 1,876 | 1,993 |
| (b) Other assets | | | | |
| Prepayments | 663 | – | 463 | – |
| Shares in unlisted companies – StateCover | – | 495 | – | 495 |
| TOTAL OTHER ASSETS | 663 | 495 | 463 | 495 |
| Externally restricted assets | | | | |
| Water | | | | |
| Stores and materials | 168 | – | 223 | – |
| Trading stock | – | – | – | 44 |
| Prepayments | 38 | 44 | 5 | – |
| Total water | 206 | 44 | 228 | 44 |
| Sewerage | | | | |
| Prepayments | 12 | – | – | – |
| Total sewerage | 12 | – | – | – |
| Total externally restricted assets | 218 | 44 | 228 | 44 |
| Total unrestricted assets | 2,318 | 2,476 | 2,111 | 2,444 |
| TOTAL INVENTORIES AND OTHER ASSETS | 2,536 | 2,520 | 2,339 | 2,488 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 8. Inventories and other assets (continued)

| \$ '000 | Notes | 2018 | | 2017 | |
|--|-------|------------|--------------|------------|--------------|
| | | Current | Non-current | Current | Non-current |
| (i) Other disclosures | | | | | |
| (a) Details for real estate development | | | | | |
| Residential | | 690 | 1,247 | 596 | 1,271 |
| Industrial/commercial | | 83 | 778 | 123 | 722 |
| Total real estate for resale | | 773 | 2,025 | 719 | 1,993 |
| (Valued at the lower of cost and net realisable value) | | | | | |
| Represented by: | | | | | |
| Acquisition costs | | – | – | – | 119 |
| Development costs | | 773 | 2,025 | 719 | 1,874 |
| Total real estate for resale | | 773 | 2,025 | 719 | 1,993 |
| Movements: | | | | | |
| Real estate assets at beginning of the year | | 719 | 1,993 | 622 | 1,971 |
| – Purchases and other costs | | 1,210 | – | 829 | 31 |
| – Transfers in from (out to) Note 9 | | – | (9) | – | (7) |
| – WDV of sales (expense) | 5 | (1,115) | – | (734) | – |
| – Transfer between current/non-current | | (41) | 41 | 2 | (2) |
| Total real estate for resale | | 773 | 2,025 | 719 | 1,993 |

Accounting policy**Raw materials and stores, work in progress and finished goods**

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventory held for distribution

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

Land held for resale/capitalisation of borrowing costs

Land held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment

| Asset class | as at 30/6/2017 | | | Asset movements during the reporting period | | | | | | | | | | | as at 30/6/2018 | | |
|---|-----------------------|---|---------------------|---|----------------------|-----------------------------|----------------------|--|---------------|---------------------------|------------------------------------|----------------------------------|---|--|-----------------------|---|---------------------|
| | Gross carrying amount | Accumulated depreciation and impairment | Net carrying amount | Additions renewals | Additions new assets | Carrying value of disposals | Depreciation expense | Impairment loss (recognised in equity) | WIP transfers | Adjustments and transfers | Remeasurement adjustment (via P/L) | Amalgamations transfers in/(out) | Tfs from/(to) real estate assets (Note 8) | Revaluation increments to equity (ARR) | Gross carrying amount | Accumulated depreciation and impairment | Net carrying amount |
| \$ '000 | | | | | | | | | | | | | | | | | |
| Capital work in progress | 26,917 | - | 26,917 | | 134 | - | - | - | (11,328) | (40) | - | (96) | - | - | 15,587 | - | 15,587 |
| Plant and equipment | 50,387 | 23,962 | 26,425 | 42 | 6,009 | (1,417) | (3,792) | - | - | - | - | 45 | - | - | 52,934 | 25,622 | 27,312 |
| Office equipment | 3,084 | 1,774 | 1,310 | | 680 | - | (296) | - | - | - | - | - | - | - | 3,818 | 2,124 | 1,694 |
| Furniture and fittings | 3,866 | 2,471 | 1,395 | | 519 | - | (271) | - | - | - | - | - | - | - | 4,398 | 2,755 | 1,643 |
| Land: | | | | | | | | | | | | | | | | | |
| - Operational land | 32,258 | - | 32,258 | 2 | - | - | - | - | - | (206) | - | 354 | - | 3,137 | 35,545 | - | 35,545 |
| - Community land | 35,840 | - | 35,840 | | - | - | - | - | - | - | - | (149) | - | - | 35,691 | - | 35,691 |
| - Land under roads (post 30/6/08) | 9,196 | - | 9,196 | 589 | 1,162 | - | - | - | - | - | - | (1) | 9 | - | 10,955 | - | 10,955 |
| Land improvements – non-depreciable | 1,801 | - | 1,801 | | - | - | - | - | - | - | - | - | - | - | 1,801 | - | 1,801 |
| Land improvements – depreciable | 8,296 | 4,875 | 3,421 | 340 | 106 | - | (305) | - | - | - | (1,094) | - | - | - | 6,505 | 4,037 | 2,468 |
| Infrastructure: | | | | | | | | | | | | | | | | | |
| - Buildings – non-specialised | 47,822 | 32,189 | 15,633 | 245 | - | - | (429) | - | - | (212) | - | (857) | - | 10,227 | 47,360 | 22,753 | 24,607 |
| - Buildings – specialised | 132,729 | 66,937 | 65,792 | 1,473 | 3,395 | - | (2,202) | - | - | 212 | - | 850 | - | 23,504 | 151,224 | 58,200 | 93,024 |
| - Other structures | 109,723 | 52,674 | 57,049 | 10,930 | 3,932 | - | (3,434) | - | - | - | - | 2,958 | - | - | 131,967 | 60,532 | 71,435 |
| - Roads | 1,277,514 | 272,539 | 1,004,975 | 2,482 | 15,228 | - | (9,361) | - | 3,833 | 597 | - | (223) | - | - | 1,301,250 | 283,719 | 1,017,531 |
| - Airport runways | 32,743 | 16,804 | 15,939 | 8,314 | 572 | - | (429) | - | - | - | - | 391 | - | - | 42,580 | 17,793 | 24,787 |
| - Bulk earthworks (non-depreciable) | 344,199 | - | 344,199 | | 263 | - | - | - | - | (351) | - | - | - | - | 344,709 | - | 344,709 |
| - Stormwater drainage | 219,427 | 30,536 | 188,891 | 639 | 6,868 | - | (987) | - | - | - | - | - | - | - | 226,935 | 31,524 | 195,411 |
| - Water supply network | 336,801 | 101,967 | 234,834 | 869 | 4,281 | (56) | (5,067) | - | 7,495 | - | - | (1) | - | 4,834 | 356,343 | 109,154 | 247,189 |
| - Sewerage network | 312,092 | 51,496 | 260,596 | 416 | 4,800 | (527) | (4,902) | (255) | - | - | - | 2 | - | 5,360 | 322,766 | 57,276 | 265,490 |
| - Swimming pools | 6,964 | 4,077 | 2,887 | | 402 | - | (100) | - | - | - | - | (85) | - | - | 6,933 | 3,829 | 3,104 |
| - Other open space/recreational assets | 6,174 | 3,756 | 2,418 | | - | - | - | - | - | - | - | (2,418) | - | - | - | - | - |
| - Quarry assets | 1,997 | - | 1,997 | | - | - | - | - | - | - | - | - | - | - | 1,997 | - | 1,997 |
| Other assets: | | | | | | | | | | | | | | | | | |
| - Heritage collections | 33 | 5 | 28 | | - | - | - | - | - | - | - | - | - | - | 33 | 5 | 28 |
| - Library books | 13 | - | 13 | | - | - | - | - | - | - | - | - | - | - | 13 | - | 13 |
| - Other | 2,395 | 1,157 | 1,238 | | - | - | (44) | - | - | - | - | - | - | - | 2,395 | 1,201 | 1,194 |
| Reinstatement, rehabilitation and restoration assets (refer Note 11): | | | | | | | | | | | | | | | | | |
| - Tip assets | 1,044 | 675 | 369 | | 436 | - | (156) | - | - | - | (583) | - | - | - | 897 | 831 | 66 |
| - Quarry assets | 465 | 227 | 238 | | 591 | - | (13) | - | - | - | - | - | - | - | 1,056 | 240 | 816 |
| TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP. | 3,003,780 | 668,134 | 2,335,646 | 26,604 | 49,389 | (2,000) | (31,788) | (255) | - | - | (583) | - | 9 | 47,062 | 3,105,692 | 681,608 | 2,424,084 |

Renewals are defined as the replacement of existing assets (as opposed to the acquisition of new assets).

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent valuations are performed at least every five years, however the carrying amount of assets is assessed at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Crown Lands and Water (CLAW).

Increases in the carrying amounts arising on revaluation are credited to the asset revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

| | | | |
|-----------------------------------|--------------|--------------------------------------|--------------|
| Plant and equipment | Years | Other equipment | Years |
| Office equipment | 1 to 8 | Playground equipment | 5 to 15 |
| Office furniture | 1 to 10 | Benches, seats etc. | 10 to 20 |
| Computer equipment | 1 to 8 | | |
| Vehicles | 5 to 8 | Buildings | |
| Heavy plant/road making equipment | 5 to 8 | Buildings: masonry | 50 to 150 |
| Other plant and equipment | 5 to 15 | Buildings: other | 20 to 100 |
| | | | |
| Water and sewer assets | | Stormwater assets | |
| Dams and reservoirs | 100 | Drains | 80 to 200 |
| Bores | 30 | Culverts | 50 to 120 |
| Reticulation pipes: PVC | 70 | Flood control structures | 80 to 100 |
| Reticulation pipes: other | 25 to 70 | | |
| Pumps and telemetry | 15 to 50 | | |
| | | | |
| Transportation assets | | Other infrastructure assets | |
| Sealed roads: surface | 21 to 24 | Bulk earthworks | Infinite |
| Sealed roads: structure | 15 to 90 | Swimming pools | 5 to 50 |
| Unsealed roads | 10 to 34 | Other open space/recreational assets | 15 to 80 |
| Bridge: concrete | 100 | | |
| Bridge: other | 80 | | |
| Road pavements | 60 to 90 | | |
| Kerb, gutter and footpaths | 40 to 200 | | |

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 9(a). Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income statement.

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

Crown reserves

Crown Reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated. Improvements on Crown Reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Under section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all fire fighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the fire fighting equipment has been purchased or constructed".

Until such time as discussions on this matter have concluded and the legislation changed, Council will recognise rural fire service assets including land, buildings, plant and vehicles.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 9(b). Externally restricted infrastructure, property, plant and equipment

| \$ '000 Class of asset | 2018 | | | 2017 | | |
|-----------------------------------|-----------------------|----------------------------------|---------------------|-----------------------|----------------------------------|---------------------|
| | Gross carrying amount | Accumulated depn. and impairment | Net carrying amount | Gross carrying amount | Accumulated depn. and impairment | Net carrying amount |
| Water supply | | | | | | |
| WIP | 5,065 | – | 5,065 | 12,555 | – | 12,555 |
| Plant and equipment | 2,220 | 1,052 | 1,168 | 2,173 | 955 | 1,218 |
| Office equipment | 41 | 40 | 1 | 41 | 41 | – |
| Furniture and fittings | 21 | 18 | 3 | 20 | 17 | 3 |
| Land | | | | | | |
| – Operational land | 2,908 | – | 2,908 | 1,614 | – | 1,614 |
| – Community land | 39 | – | 39 | 39 | – | 39 |
| Buildings | 801 | 400 | 401 | 8,825 | 2,430 | 6,395 |
| Other structures | 716 | 197 | 519 | 716 | 173 | 543 |
| Infrastructure | 355,450 | 108,624 | 246,826 | 327,379 | 99,505 | 227,874 |
| Roads | 3,447 | 558 | 2,889 | 3,447 | 528 | 2,919 |
| Bulk earthworks | 746 | – | 746 | 746 | – | 746 |
| Other assets | 425 | 1 | 424 | 425 | 1 | 424 |
| Total water supply | 371,879 | 110,890 | 260,989 | 357,980 | 103,650 | 254,330 |
| Sewerage services | | | | | | |
| WIP | 8,452 | – | 8,452 | 6,809 | – | 6,809 |
| Plant and equipment | 2,072 | 1,030 | 1,042 | 1,960 | 937 | 1,023 |
| Office equipment | 99 | 67 | 32 | 99 | 66 | 33 |
| Furniture and fittings | 13 | 9 | 4 | 13 | 7 | 6 |
| Land | | | | | | |
| – Operational land | 6,757 | – | 6,757 | 6,183 | – | 6,183 |
| – Community land | – | – | – | 149 | – | 149 |
| Buildings | 1,336 | 926 | 410 | 5,901 | 2,387 | 3,514 |
| Other structures | 590 | 418 | 172 | 590 | 399 | 191 |
| Infrastructure | 318,975 | 55,858 | 263,117 | 305,953 | 48,977 | 256,976 |
| Roads | 3,695 | 1,012 | 2,683 | 3,695 | 979 | 2,716 |
| Bulk earthworks | 830 | – | 830 | 830 | – | 830 |
| Total sewerage services | 342,819 | 59,320 | 283,499 | 332,182 | 53,752 | 278,430 |
| Domestic waste management | | | | | | |
| Plant and equipment | 2,366 | 1,084 | 1,282 | 1,710 | 992 | 718 |
| Land | | | | | | |
| – Operational land | – | – | – | 150 | – | 150 |
| – Community land | – | – | – | 35 | – | 35 |
| – Improvements – depreciable | – | – | – | 88 | 53 | 35 |
| Buildings | – | – | – | 484 | 74 | 410 |
| Other structures | 395 | 342 | 53 | 291 | 286 | 5 |
| Roads | 54 | 25 | 29 | 20 | 8 | 12 |
| Bulk earthworks | 49 | – | 49 | 49 | – | 49 |
| Other assets | – | – | – | 98 | 26 | 72 |
| Total DWM | 2,864 | 1,451 | 1,413 | 2,925 | 1,439 | 1,486 |
| Stormwater drainage | | | | | | |
| WIP | 1,014 | – | 1,014 | 880 | – | 880 |
| Plant and equipment | 55 | 27 | 28 | 31 | 25 | 6 |
| – Operational land | 1,217 | – | 1,217 | 720 | – | 720 |
| – Community land | 49 | – | 49 | 31 | – | 31 |
| Infrastructure | 229,003 | 31,435 | 197,568 | 219,091 | 30,457 | 188,634 |
| Bulk earthworks | 2,405 | – | 2,405 | 2,405 | – | 2,405 |
| Total other restrictions | 233,743 | 31,462 | 202,281 | 223,158 | 30,482 | 192,676 |
| TOTAL RESTRICTED IPP&E | 951,305 | 203,123 | 748,182 | 916,245 | 189,323 | 726,922 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018Note 9(c). Infrastructure, property, plant and equipment – current year
impairments

| \$ '000 | Notes | 2018 | 2017 |
|---|-------|--------------|----------|
| Reversals of impairment losses previously recognised direct to equity (ARR): | | | |
| – Details of each impaired asset incl. circumstances of reversal | | (255) | – |
| Total impairment reversals | | (255) | – |
| IMPAIRMENT OF ASSETS – DIRECT to EQUITY (ARR) | | (255) | – |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 10. Payables and borrowings

| \$ '000 | 2018 | | 2017 | |
|--|---------------|---------------|---------------|---------------|
| | Current | Non-current | Current | Non-current |
| Payables | | | | |
| Goods and services – operating expenditure | 8,819 | – | 4,566 | – |
| Accrued expenses: | | | | |
| – Borrowings | 586 | – | 625 | – |
| – Salaries and wages | 952 | – | 1,032 | – |
| Security bonds, deposits and retentions | 1,681 | – | 1,465 | – |
| Other | – | 1 | – | 1 |
| Total payables | 12,038 | 1 | 7,688 | 1 |
| Income received in advance | | | | |
| Payments received in advance | 328 | – | 770 | – |
| Total income received in advance | 328 | – | 770 | – |
| Borrowings | | | | |
| Loans – secured ¹ | 4,922 | 62,434 | 4,652 | 67,356 |
| Total borrowings | 4,922 | 62,434 | 4,652 | 67,356 |
| TOTAL PAYABLES AND BORROWINGS | 17,288 | 62,435 | 13,110 | 67,357 |

(a) Payables and borrowings relating to restricted assets

| | 2018 | | 2017 | |
|--|---------------|---------------|---------------|---------------|
| | Current | Non-current | Current | Non-current |
| Externally restricted assets | | | | |
| Water | 1,713 | 24,865 | 1,817 | 25,934 |
| Sewer | 2,169 | 17,490 | 2,208 | 19,429 |
| Drainage | – | – | 238 | 3,536 |
| Payables and borrowings relating to externally restricted assets | 3,882 | 42,355 | 4,263 | 48,899 |
| Total payables and borrowings relating to restricted assets | 3,882 | 42,355 | 4,263 | 48,899 |
| Total payables and borrowings relating to unrestricted assets | 13,406 | 20,080 | 8,847 | 18,458 |
| TOTAL PAYABLES AND BORROWINGS | 17,288 | 62,435 | 13,110 | 67,357 |

¹ Loans are secured over the general rating income of Council

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 17.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 10. Payables and borrowings (continued)

\$ '000

(b) Changes in liabilities arising from financing activities

| Class of borrowings | Opening balance as at 1/7/17 | Cash flows | Non-cash changes | | | Closing balance as at 30/6/18 |
|---------------------|------------------------------|----------------|------------------|--------------------|--------------------------|-------------------------------|
| | | | Acquisition | Fair value changes | Other non-cash movements | |
| Loans – secured | 72,008 | (4,652) | – | – | – | 67,356 |
| TOTAL | 72,008 | (4,652) | – | – | – | 67,356 |

\$ '000

2018

2017

(c) Financing arrangements**(i) Unrestricted access was available at balance date to the following lines of credit:**

| | | |
|---|------------|------------|
| Bank overdraft facilities ⁽¹⁾ | 200 | 200 |
| Credit cards/purchase cards | 600 | 435 |
| Other | 10 | – |
| Total financing arrangements | 810 | 635 |
| Drawn facilities as at balance date: | | |
| – Credit cards/purchase cards | 58 | 38 |
| – Other | 10 | – |
| Total drawn financing arrangements | 68 | 38 |
| Undrawn facilities as at balance date: | | |
| – Bank overdraft facilities | 200 | 200 |
| – Credit cards/purchase cards | 542 | 397 |
| Total undrawn financing arrangements | 742 | 597 |

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

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 10. Payables and borrowings (continued)

Accounting policy for payables and borrowings

Payables

These amounts represent liabilities for goods and services provided to the Council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

Borrowings are classified as current liabilities unless Council has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Finance leases

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that Council will obtain ownership at the end of the lease term.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 11. Provisions

| \$ '000 | 2018 | | 2017 | |
|--|---------------|--------------|---------------|--------------|
| | Current | Non-current | Current | Non-current |
| Provisions | | | | |
| Employee benefits: | | | | |
| Annual leave | 3,729 | – | 3,937 | – |
| Sick leave | 1,069 | – | 1,303 | – |
| Long service leave | 8,806 | 473 | 9,751 | 476 |
| Other leave | 161 | – | 56 | – |
| Sub-total – aggregate employee benefits | 13,765 | 473 | 15,047 | 476 |
| Asset remediation/restoration: | | | | |
| Asset remediation/restoration (future works) | – | 3,973 | – | 2,117 |
| Sub-total – asset remediation/restoration | – | 3,973 | – | 2,117 |
| TOTAL PROVISIONS | 13,765 | 4,446 | 15,047 | 2,593 |

(a) Provisions relating to restricted assets

| | 2018 | | 2017 | |
|--|---------------|--------------|---------------|--------------|
| | Current | Non-current | Current | Non-current |
| Externally restricted assets | | | | |
| Water | 1,180 | 50 | 965 | 33 |
| Sewer | – | – | 113 | 5 |
| Provisions relating to externally restricted assets | 1,180 | 50 | 1,078 | 38 |
| Total provisions relating to restricted assets | 1,180 | 50 | 1,078 | 38 |
| Total provisions relating to unrestricted assets | 12,585 | 4,396 | 13,969 | 2,555 |
| TOTAL PROVISIONS | 13,765 | 4,446 | 15,047 | 2,593 |

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

(b) Current provisions not anticipated to be settled within the next twelve months

The following provisions, even though classified as current, are not expected to be settled in the next 12 months.

| | | |
|---------------------------------|--------------|--------------|
| Provisions – employees benefits | 7,211 | 8,434 |
| | 7,211 | 8,434 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 11. Provisions (continued)

\$ '000

(c) Description of and movements in provisions

| 2018 | ELE provisions | | | | | Total |
|--|----------------|--------------|--------------------|--------------|-------------------------|---------------|
| | Annual leave | Sick leave | Long service leave | ELE on-costs | Other employee benefits | |
| At beginning of year | 3,937 | 1,303 | 10,227 | – | 56 | 15,523 |
| Other | (208) | (234) | (948) | – | 105 | (1,285) |
| Total ELE provisions at end of year | 3,729 | 1,069 | 9,279 | – | 161 | 14,238 |

| 2017 | ELE provisions | | | | | Total |
|--|----------------|--------------|--------------------|--------------|-------------------------|---------------|
| | Annual leave | Sick leave | Long service leave | ELE on-costs | Other employee benefits | |
| At beginning of year | 3,639 | 1,356 | 10,087 | – | 123 | 15,205 |
| Other | 298 | (53) | 140 | – | (67) | 318 |
| Total ELE provisions at end of year | 3,937 | 1,303 | 10,227 | – | 56 | 15,523 |

| 2018 | Other provisions | |
|--|-------------------|--------------|
| | Asset remediation | Total |
| At beginning of year | 2,117 | 2,117 |
| Changes to provision: | | |
| – Revised costs | 442 | 442 |
| Unwinding of discount | 1,414 | 1,414 |
| Total other provisions at end of year | 3,973 | 3,973 |

| 2017 | Other provisions | |
|--|-------------------|--------------|
| | Asset remediation | Total |
| At beginning of year | 2,206 | 2,206 |
| Changes to provision: | | |
| – Revised discount rate | (154) | (154) |
| Unwinding of discount | 65 | 65 |
| Total other provisions at end of year | 2,117 | 2,117 |

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 11. Provisions (continued)

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarry.

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 11. Provisions (continued)

Provisions for close-down and restoration, and environmental clean-up costs – tips and quarries

Restoration

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation 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, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals

Rehabilitation

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result there could be significant adjustments to the provision for close down and restoration and environmental clean up, which would affect future financial results.

Other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Close down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

Self-insurance

Council has decided to self-insure for various risks, including public liability and professional indemnity.

A provision for self-insurance has been made to recognise outstanding claims. Council also maintains cash and investments to meet expected future claims; refer to Note 6(c).

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

The infrastructure, property, plant and equipment revaluation reserve is used to record increments / decrements of non-current asset values due to their revaluation.

Note 13. Statement of cash flows – additional information

| \$ '000 | Notes | 2018 | 2017 |
|---|-------|----------------|---------------|
| (a) Reconciliation of cash assets | | | |
| Total cash and cash equivalent assets | 6a | 36,755 | 25,752 |
| Balance as per the Statement of Cash Flows | | 36,755 | 25,752 |
| (b) Reconciliation of net operating result to cash provided from operating activities | | | |
| Net operating result from Income Statement | | 91,601 | 61,271 |
| Adjust for non-cash items: | | | |
| Depreciation and amortisation | | 30,407 | 35,131 |
| Net losses/(gains) on disposal of assets | | (3,017) | (3,696) |
| Non-cash capital grants and contributions | | (17,967) | (10,580) |
| Losses/(gains) recognised on fair value re-measurements through the P&L: | | | |
| – Investments classified as 'at fair value' or 'held for trading' | | – | 48 |
| Amortisation of premiums, discounts and prior period fair valuations | | (75) | (51) |
| – Interest on all fair value adjusted interest free advances made by Council | | 1,856 | (89) |
| Unwinding of discount rates on reinstatement provisions | | (151) | (183) |
| Share of net (profits) or losses of associates/joint ventures | | | |
| +/- Movement in operating assets and liabilities and other cash items: | | | |
| Decrease/(increase) in receivables | | (4,021) | 7,570 |
| Increase/(decrease) in provision for doubtful debts | | 387 | (187) |
| Decrease/(increase) in inventories | | 57 | 23 |
| Decrease/(increase) in other assets | | (200) | 351 |
| Increase/(decrease) in payables | | 4,253 | (827) |
| Increase/(decrease) in accrued interest payable | | (39) | (403) |
| Increase/(decrease) in other accrued expenses payable | | (80) | 476 |
| Increase/(decrease) in other liabilities | | (226) | 294 |
| Increase/(decrease) in employee leave entitlements | | (1,285) | 318 |
| Net cash provided from/(used in) operating activities from the Statement of Cash Flows | | 101,500 | 89,466 |
| (c) Non-cash investing and financing activities | | | |
| Infrastructure contributions | | 17,967 | 10,580 |
| Total non-cash investing and financing activities | | 17,967 | 10,580 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 14. Interests in other entities

\$ '000

| | Council's share of net income | | Council's share of net assets | |
|----------------|-------------------------------|-----------------------|-------------------------------|--------------|
| | 2018 | 13/5/16 to 30/6/17 | 2018 | 2017 |
| Joint ventures | 151 | 183 | 1,484 | 1,333 |
| Total | 151 | 183 | 1,484 | 1,333 |

Joint arrangements

(i) Joint ventures

Council has incorporated the following joint ventures into its consolidated financial statements.

(a) Net carrying amounts – Council's share

| Name of entity | Nature of relationship | Measurement method | 2018 | 2017 |
|---|------------------------|--------------------|------------|--------------|
| Macquarie Regional Library | Joint Venture | Equity | 642 | 1,333 |
| Total carrying amounts – material joint ventures | | | 642 | 1,333 |

(b) Details

| Name of entity | Principal activity | Place of business |
|----------------------------|-------------------------|--|
| Macquarie Regional Library | Public library services | Branches in Dubbo, Narromine and Warrumbungle Council area |

(c) Relevant interests and fair values

| Name of entity | Quoted fair value | | Interest in outputs | | Interest in ownership | | Proportion of voting power | |
|----------------------------|-------------------|------|---------------------|------|-----------------------|------|----------------------------|------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Macquarie Regional Library | | n/a | 69% | | 73% | | 33% | |

(d) Summarised financial information for joint ventures

| | Macquarie Regional Library | |
|---|----------------------------|--------------|
| Statement of financial position | 2018 | 2017 |
| Current assets | | |
| Cash and cash equivalents | 1,930 | 1,653 |
| Other current assets | 71 | 85 |
| Non-current assets | – | 991 |
| Current liabilities | | |
| Current financial liabilities (excluding trade and other payables and provisions) | 1,088 | 871 |
| Non-current liabilities | | |
| Non-current financial liabilities (excluding trade and other payables and provisions) | 32 | 29 |
| Net assets | 881 | 1,829 |

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Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 14. Interests in other entities

\$ '000

Joint arrangements (continued)

(d) Summarised financial information for joint ventures (continued)

| | Macquarie Regional Library | |
|--|----------------------------|-----------------------|
| | 2018 | 13/5/16 to 30/6/17 |
| Reconciliation of the carrying amount | | |
| Opening net assets (1 July) | 1,829 | 1,562 |
| Profit/(loss) for the period | 220 | 267 |
| Dividends paid | (1,168) | – |
| Closing net assets | 881 | 1,829 |
| Council's share of net assets (%) | 72.9% | 72.9% |
| Council's share of net assets (\$) | 642 | 1,333 |
| Statement of comprehensive income | | |
| Income | 2,883 | 2,921 |
| Interest income | 45 | 37 |
| Depreciation and amortisation | (331) | (313) |
| Other expenses | (2,376) | (2,378) |
| Profit/(loss) for period | 221 | 267 |
| Total comprehensive income | 221 | 267 |
| Share of income – Council (%) | 68.5% | 68.5% |
| Profit/(loss) – Council (\$) | 151 | 183 |
| Total comprehensive income – Council (\$) | 151 | 183 |

(e) Summarised financial information for individually immaterial joint ventures

In addition to the joint ventures disclosed individually above, Council has interests in a number of individually immaterial joint ventures that have still been accounted for using the equity method.

| Individually immaterial joint ventures | 2018 | 2017 |
|--|------------|----------|
| Aggregate carrying amount of individually immaterial joint ventures | 842 | – |

Accounting policy for joint arrangements

The Council has determined that it has only joint ventures

Joint ventures

Interests in joint ventures are accounted for using the equity method in accordance with AASB128 Investments in *Associates and Joint Ventures*. Under this method, the investment is initially recognised as a cost and the carrying amount is increased or decreased to recognise the Council's share of the profit or loss and other comprehensive income of the joint venture after the date of acquisition.

If the Council's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Council discontinues recognising its share of further losses.

The Council's share in the joint venture's gains or losses arising from transactions between itself and its joint venture are eliminated.

Adjustments are made to the joint venture's accounting policies where they are different from those of the Council for the purpose of the consolidated financial statements.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 15. Commitments for expenditure

| \$ '000 | 2018 | 2017 |
|--|---------------|---------------|
| (a) Capital commitments (exclusive of GST) | | |
| Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities: | | |
| Property, plant and equipment | | |
| Road Infrastructure | 8,532 | 5,187 |
| Other structures | 5,593 | 3,667 |
| Water infrastructure | 2,259 | 413 |
| Sewer infrastructure | 233 | 2,797 |
| Total commitments | 16,617 | 12,064 |
| These expenditures are payable as follows: | | |
| Within the next year | 12,557 | 9,532 |
| Later than one year and not later than 5 years | 4,060 | 2,532 |
| Total payable | 16,617 | 12,064 |
| Sources for funding of capital commitments: | | |
| Unrestricted general funds | 9,639 | 8,854 |
| Externally restricted reserves | 6,978 | 3,210 |
| Total sources of funding | 16,617 | 12,064 |
| (b) Operating lease commitments (non-cancellable) | | |
| a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable: | | |
| Within the next year | 132 | 101 |
| Later than one year and not later than 5 years | 173 | 83 |
| Total non-cancellable operating lease commitments | 305 | 184 |
| b. Non-cancellable operating leases include the following assets: | | |
| - Computer equipment | | |
| Conditions relating to operating leases: | | |
| - All operating lease agreements are secured only against the leased asset. | | |
| - No lease agreements impose any financial restrictions on Council regarding future debt etc. | | |

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 16. Contingencies and other liabilities/assets not recognised

The following assets and liabilities do not qualify for recognition in the Statement of Financial Position, but their knowledge and disclosure is considered relevant to the users of Council's financial report.

LIABILITIES NOT RECOGNISED:

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council participates in an employer-sponsored defined benefit superannuation scheme, and makes contributions as determined by the superannuation scheme's trustees.

Member councils bear responsibility of ensuring there are sufficient funds available to pay out the required benefits as they fall due.

The schemes most recent full actuarial review indicated that the net assets of the scheme were not sufficient to meet the accrued benefits of the schemes defined benefit member category with member councils required to make significantly higher contributions in future years.

The Local Government Superannuation Scheme however is unable to provide Council with an accurate estimate of its share of the net deficit and accordingly Council has not recorded any net liability from its defined benefit scheme obligations in accordance with AASB 119.

Future contributions made to the defined benefit scheme to rectify the net deficit position will be recognised as an expense when they become payable – similar to the accounting for defined contributions plans.

(ii) Statewide Limited

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

(iii) StateCover Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover is a company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 16. Contingencies and other liabilities/assets not recognised (continued)

LIABILITIES NOT RECOGNISED (continued):

1. Guarantees (continued)

(iii) StateCover Limited (continued)

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

(iv) Other guarantees

Council has provided no other guarantees other than those listed above.

2. Other liabilities

(i) Third party claims

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

(ii) Potential land acquisitions due to planning restrictions imposed by Council

Council has classified a number of privately owned land parcels as local open space or bushland.

As a result, where notified in writing by the various owners, Council will be required to purchase these land parcels.

At reporting date, reliable estimates as to the value of any potential liability (and subsequent land asset) from such potential acquisitions has not been possible.

ASSETS NOT RECOGNISED:

(i) Land under roads

As permitted under AASB 1051, Council has elected not to bring to account land under roads that it owned or controlled up to and including 30/6/08.

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 16. Contingencies and other liabilities/assets not recognised (continued)

ASSETS NOT RECOGNISED (continued):

(ii) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to determine the value of outstanding income.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 17. Financial risk management

\$ '000

Risk management

Council's activities expose it to a variety of financial risks including (1) price risk, (2) credit risk, (3) liquidity risk and (4) interest rate risk.

The Council's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Council.

Council does not engage in transactions expressed in foreign currencies and is therefore not subject to foreign currency risk.

Financial risk management is carried out by Council's finance section under policies approved by the Council.

A comparison by category of the carrying amounts and fair values of Council's financial assets and financial liabilities recognised in the financial statements is presented below.

| | Carrying value | | Fair value | |
|------------------------------------|----------------|----------------|------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Financial assets | | | | |
| Cash and cash equivalents | 36,755 | 25,752 | - | - |
| Investments | | | | |
| – 'Held to maturity' | 197,732 | 162,373 | - | - |
| Receivables | 22,008 | 18,953 | - | - |
| Other financial assets | 495 | 495 | - | - |
| Total financial assets | 256,990 | 207,573 | - | - |
| Financial liabilities | | | | |
| Payables | 12,039 | 7,689 | - | - |
| Loans/advances | 67,356 | 72,008 | - | - |
| Total financial liabilities | 79,395 | 79,697 | - | - |

Fair value is determined as follows:

- **Cash** and **cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings** and **held-to-maturity** investments – are based upon estimated future cash flows discounted by the current mkt interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) '**at fair value through profit and loss**' or (ii) '**available-for-sale**' – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 17. Financial risk management (continued)

\$ '000

Council's objective is to maximise its return on cash and investments whilst maintaining an adequate level of liquidity and preserving capital.

Council's finance area manages the cash and Investments portfolio with the assistance of independent advisors.

Council has an investment policy which complies with the *Local Government Act 1993* and Ministerial Investment Order 625. This policy is regularly reviewed by Council and its staff and a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

Council manages these risks (amongst other measures) by diversifying its portfolio and only purchasing investments with high credit ratings or capital guarantees.

Council also seeks advice from independent advisers before placing any funds in cash equivalents and investments.

(a) Market risk – price risk and interest rate risk

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

| | Increase of values/rates | | Decrease of values/rates | |
|--|--------------------------|--------|--------------------------|---------|
| | Profit | Equity | Profit | Equity |
| 2018 | | | | |
| Possible impact of a 1% movement in interest rates | 2,345 | 2,345 | (2,345) | (2,345) |
| 13/5/16to 30/6/17 | | | | |
| Possible impact of a 1% movement in interest rates | 1,880 | 1,880 | (1,880) | (1,880) |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 17. Financial risk management (continued)

\$ '000

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

Credit risk on rates and annual charges is minimised by the ability of Council to secure a charge over the land relating to the debts – that is, the land can be sold to recover the debt. Council is also able to charge interest on overdue rates and annual charges at higher than market rates which further encourages the payment of debt.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

The level of outstanding receivables is reported to Council monthly and benchmarks are set and monitored for acceptable collection performance.

Council makes suitable provision for doubtful receivables as required and carries out credit checks on most non-rate debtors.

There are no material receivables that have been subjected to a re-negotiation of repayment terms.

A profile of Council's receivables credit risk at balance date follows:

| | 2018 Rates and annual charges | 2018 Other receivables | 2017 Rates and annual charges | 2017 Other receivables |
|---|--|------------------------------|--|------------------------------|
| (i) Ageing of receivables – % | | | | |
| Current (not yet overdue) | 71% | 91% | 57% | 74% |
| Overdue | 29% | 9% | 43% | 26% |
| | 100% | 100% | 100% | 100% |
| (ii) Ageing of receivables – value | | | 2018 | 2017 |
| Rates and annual charges | | | | |
| Current | | | 1,804 | 1,072 |
| < 1 year overdue | | | 732 | 779 |
| | | | 2,536 | 1,851 |
| Other receivables | | | | |
| Current | | | 18,188 | 12,750 |
| 0 – 30 days overdue | | | 531 | 3,319 |
| 31 – 60 days overdue | | | 481 | 337 |
| 61 – 90 days overdue | | | 114 | 36 |
| > 91 days overdue | | | 591 | 706 |
| | | | 19,905 | 17,148 |

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Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 17. Financial risk management (continued)

\$ '000

(c) Liquidity risk

Payables and borrowings are both subject to liquidity risk – the risk that insufficient funds may be on hand to meet payment obligations as and when they fall due.

Council manages this risk by monitoring its cash flow requirements and liquidity levels and maintaining an adequate cash buffer.

Payment terms can (in extenuating circumstances) also be extended and overdraft facilities utilised as required.

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk by borrowing long term and fixing the interest rate on a 4-year renewal basis. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and borrowings are set out in the maturity table below:

| \$ '000 | Weighted average interest rate | Subject to no maturity | payable in: | | | Total cash outflows | Actual carrying values |
|------------------------------------|--------------------------------------|------------------------------|---------------|---------------|---------------|---------------------------|------------------------------|
| | | | ≤ 1 Year | 1 – 5 Years | > 5 Years | | |
| 2018 | | | | | | | |
| Trade/other payables | 0.00% | 1,681 | 10,358 | - | - | 12,039 | 12,039 |
| Loans and advances | 4.50% | - | 8,958 | 35,832 | 54,319 | 99,109 | 67,356 |
| Total financial liabilities | | 1,681 | 19,316 | 35,832 | 54,319 | 111,148 | 79,395 |
| 2017 | | | | | | | |
| Trade/other payables | 0.00% | 1,465 | 6,224 | - | - | 7,689 | 7,689 |
| Loans and advances | 4.50% | - | 9,017 | 35,840 | 63,269 | 108,126 | 72,008 |
| Total financial liabilities | | 1,465 | 15,241 | 35,840 | 63,269 | 115,815 | 79,697 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 18. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 26 June 2017 and is not required to be audited.

While the Income Statement included in this General Purpose Financial Report must disclose the original budget adopted by Council, the *Local Government Act 1993* requires Council to review its financial budget on a quarterly basis, so that it is able to manage the various variations between actuals versus budget that invariably occur throughout the year.

This note sets out the details of **material variations** between Council's original budget and its actual results for the year as per the Income Statement – even though such variations may have been adjusted for during each quarterly budget review.

Note that for variations* of budget to actual :

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

F = Favourable budget variation, **U** = Unfavourable budget variation

| \$ '000 | 2018 Budget | 2018 Actual | 2018 ----- Variance* ----- | |
|---|----------------|----------------|-------------------------------|----------------|
| REVENUES | | | | |
| Rates and annual charges | 59,306 | 56,909 | (2,397) | (4%) U |
| User charges and fees | 38,329 | 54,371 | 16,042 | 42% F |
| Interest and investment revenue | 4,085 | 6,494 | 2,409 | 59% F |
| Other revenues | 6,163 | 1,433 | (4,730) | (77%) U |
| Operating grants and contributions | 20,773 | 30,703 | 9,930 | 48% F |
| Capital grants and contributions | 25,166 | 60,804 | 35,638 | 142% F |
| Net gains from disposal of assets | 250 | 3,017 | 2,767 | 1107% F |
| Joint ventures and associates - net profits | - | 151 | 151 | 0% F |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 18. Material budget variations (continued)

| \$ '000 | 2018 Budget | 2018 Actual | 2018 ----- Variance* ----- | | |
|--------------------------------|----------------|----------------|-------------------------------|-------|---|
| EXPENSES | | | | | |
| Employee benefits and on-costs | 38,036 | 37,187 | 849 | 2% | F |
| Borrowing costs | 3,864 | 5,682 | (1,818) | (47%) | U |
| Materials and contracts | 32,486 | 32,936 | (450) | (1%) | U |
| Depreciation and amortisation | 32,749 | 30,407 | 2,342 | 7% | F |
| Other expenses | 13,447 | 16,069 | (2,622) | (19%) | U |

Budget variations relating to Council's Cash Flow Statement include:

| | | | | | |
|--------------------------------------|----------|----------|----------|-------|---|
| Cash flows from operating activities | 64,608 | 101,500 | 36,892 | 57.1% | F |
| Cash flows from investing activities | (63,785) | (85,845) | (22,060) | 34.6% | U |
| Cash flows from financing activities | (2,822) | (4,652) | (1,830) | 64.8% | U |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 19. Fair value measurement

\$ '000

The Council measures the following asset and liability classes at fair value on a recurring basis:

– Infrastructure, property, plant and equipment

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).

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values:

| 2018 | Date of latest valuation | Fair value measurement hierarchy | | | Total |
|--|--------------------------------|---|--|--|------------------|
| | | Level 1 Quoted prices in active mkts | Level 2 Significant observable inputs | Level 3 Significant unobservable inputs | |
| Recurring fair value measurements | | | | | |
| Infrastructure, property, plant and equipment | | | | | |
| Capital works in progress | 30/06/17 | – | – | 15,587 | 15,587 |
| Plant and equipment | 30/06/14 | – | 27,312 | – | 27,312 |
| Office equipment | 30/06/14 | – | 1,694 | – | 1,694 |
| Furniture and fittings | 30/06/14 | – | 1,643 | – | 1,643 |
| Operational land | 30/06/18 | – | 35,545 | – | 35,545 |
| Community land | 30/06/11 | – | – | 35,691 | 35,691 |
| Land under roads (post 30/06/2008) | At cost | – | – | 10,955 | 10,955 |
| Land improvements - non-depreciable | 30/06/10 | – | – | 1,801 | 1,801 |
| Land improvement - depreciable | 30/06/08 | – | – | 2,468 | 2,468 |
| Buildings - non-specialised | 30/06/18 | – | 24,607 | – | 24,607 |
| Buildings - specialised | 30/06/18 | – | 93,025 | – | 93,025 |
| Other structures | 30/06/13 | – | – | 71,435 | 71,435 |
| Roads | 30/06/15 | – | – | 1,017,532 | 1,017,532 |
| Airport runways/taxiways | 30/06/15 | – | – | 24,787 | 24,787 |
| Bulk earthworks | 30/06/15 | – | – | 344,709 | 344,709 |
| Stormwater drainage | 30/06/15 | – | – | 195,411 | 195,411 |
| Water supply network | 30/06/17 | – | – | 247,188 | 247,188 |
| Sewerage network | 30/06/17 | – | – | 265,490 | 265,490 |
| Swimming pools | 12/05/16 | – | – | 3,104 | 3,104 |
| Quarry assets | 30/06/14 | – | – | 1,997 | 1,997 |
| Heritage collections | 30/06/07 | – | – | 28 | 28 |
| Other assets | 30/06/07 | – | – | 1,193 | 1,193 |
| Tip restoration assets | 30/06/18 | – | – | 66 | 66 |
| Quarry restoration assets | 30/06/18 | – | – | 816 | 816 |
| Total infrastructure, property, plant and equipment | | – | 183,826 | 2,240,258 | 2,424,084 |

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Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

\$ '000

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values: (continued)

| 2017 | Date of latest valuation | Fair value measurement hierarchy | | | Total |
|--|--------------------------------|---|--|--|------------------|
| | | Level 1 Quoted prices in active mkts | Level 2 Significant observable inputs | Level 3 Significant unobservable inputs | |
| Recurring fair value measurements | | | | | |
| Infrastructure, property, plant and equipment | | | | | |
| Capital works in progress | 30/06/17 | – | – | 26,917 | 26,917 |
| Plant and equipment | 30/06/14 | – | 26,425 | – | 26,425 |
| Office equipment | 30/06/14 | – | 1,310 | – | 1,310 |
| Furniture and fittings | 30/06/14 | – | 1,395 | – | 1,395 |
| Operational land | 30/06/13 | – | 32,258 | – | 32,258 |
| Community land | 30/06/11 | – | – | 35,840 | 35,840 |
| Land under roads (post 30/06/2008) | At cost | – | – | 9,196 | 9,196 |
| Land improvements - non-depreciable | 30/06/10 | – | – | 1,801 | 1,801 |
| Land improvement - depreciable | 30/06/08 | – | – | 3,421 | 3,421 |
| Buildings - non-specialised | 30/06/13 | – | – | 15,633 | 15,633 |
| Buildings - specialised | 30/06/13 | – | – | 65,792 | 65,792 |
| Other structures | 30/06/13 | – | – | 57,049 | 57,049 |
| Roads | 30/06/15 | – | – | 1,004,975 | 1,004,975 |
| Airport runways/taxiways | 30/06/15 | – | – | 15,939 | 15,939 |
| Bulk earthworks | 30/06/15 | – | – | 344,199 | 344,199 |
| Stormwater drainage | 30/06/15 | – | – | 188,891 | 188,891 |
| Water supply network | 30/06/17 | – | – | 234,834 | 234,834 |
| Sewerage network | 30/06/17 | – | – | 260,596 | 260,596 |
| Swimming pools | 12/05/16 | – | – | 2,887 | 2,887 |
| Other open space/recreational assets | 12/05/16 | – | – | 2,418 | 2,418 |
| Heritage collections | 30/06/07 | – | – | 28 | 28 |
| Other assets | 30/06/07 | – | – | 1,238 | 1,238 |
| Tip restoration assets | 30/06/13 | – | – | 369 | 369 |
| Quarry restoration assets | 30/06/13 | – | – | 238 | 238 |
| Total infrastructure, property, plant and equipment | | – | 61,388 | 2,272,261 | 2,333,649 |

(2) Transfers between level 1 and level 2 fair value hierarchies

During the year, there were no transfers between level 1 and level 2 fair value hierarchies for recurring fair value measurements.

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

\$ '000

(3) Valuation techniques used to derive level 2 and level 3 fair values

Where Council is unable to derive fair valuations using quoted market prices of identical assets (ie. level 1 inputs) Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs).

The fair valuation techniques Council has employed while utilising level 2 and level 3 inputs are as follows:

Infrastructure, property, plant and equipment (IPP&E)

Level 2 inputs

Plant & equipment

It is considered that there is a liquid second hand market for Council's plant and equipment, however, there is subjectivity of prices in this market dependent on the age and condition of the equipment being sold. Council has determined that the plant and equipment is to be classified as level 2 inputs.

Office equipment and furniture & fittings

There is a liquid second hand market for these types of assets, but the market is not liquid enough to qualify the assets as valued at level 1. The reason for retaining book value in note 9 is that these assets typically have very short useful lives, are held to the end of their economic life and have no residual value, and the written down value reflects their value in use rather than their market value.

Operational land

There is an active liquid market for most of Council's Operational Land, however, the subjectivity of pricing has resulted in this land to be classified as Level 2.

Quarry assets

The quarry assets are valued on the basis of the price of acquiring the same quality material from commercial quarries that operate within the Dubbo local government area. The reason for level 2 classification is that there is a degree of estimation required to determine the amount of material remaining in the quarry, and also the potential variation in quality of the material that has yet to be won from the quarry.

Level 3 inputs

Capital works in progress

The valuation method employed is the cost of construction of the asset. As there is no active market for any of the infrastructure assets that are partially constructed, the only valuation available is cost, or inputs to the construction work, which is a level 3 unobservable input.

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

\$ '000

(3) Valuation techniques used to derive level 2 and level 3 fair values (continued)

Community land

Community land was valued using urban and rural average municipal site values. These were determined by analysing the total rateable value of urban and rural lands, and then dividing the total valuations by the total area to determine an average rate per hectare or square metre. This was then applied to the areas of community land. This work was carried out by Council's rating staff. This method has no market observable inputs as the rating value is the valuation provided by the Valuer General for rating purposes, and may or may not align with the market value of the land. However, it is not a market valuation of the land. The level 3 unobservable inputs are the valuations provided by the Valuer General on which the value of the land is determined.

Land under roads

Council has elected to only recognise land under roads that have been acquired after 30 June 2008. There are two methods by which this land is valued, neither of which represent the market value of the land as there is no market for land that is currently used for road or road reserve purposes. Land which is transferred to Council from private subdividers is valued using the municipal site value as outlined in valuation of community land above. Land under roads relating to Council's own subdivisions is valued at the cost of that land at acquisition, on an area basis. The level 3 unobservable inputs are the average municipal site value of subdividers land vested in Council, and the cost of the land acquired by Council for subdivision on an area basis.

Land improvements depreciable and non-depreciable

Land improvements - non-depreciable are valued at current replacement cost. This is a level 3 unobservable input as the valuation method does not reflect a market rate as there is no active market for sale of land improvements - non-depreciable.

Buildings - specialised and non-specialised and other structures (including swimming pools and open space/recreational assets)

Valuations of buildings was carried out by an external valuer, but the valuation was on the written down current replacement cost of the buildings rather than the market value. Consequently, all buildings are categorised as level 3 unobservable inputs, as the valuations do not reflect market valuations.

Infrastructure roads, bridges and footpaths

Valuation of roads was undertaken by both an external valuer and Council staff, based on the current written down value of the road assets within Council's network. As this is based on the current costs of construction at time of valuation, and not market value, this valuation is a level 3 unobservable input valuation.

Bulk earthworks (non-depreciable)

Valuation of non-depreciable bulk earthworks has two different valuations depending on whether the earthworks relate to roads or stormwater retarding basins. All earthworks relating to roads were valued in conjunction with the valuation of the roads by an external valuer and by Council staff, on a current replacement cost basis. All stormwater retarding basin earthworks were valued on a current replacement cost basis by Council staff as an internal valuation. The basis of determining the value for internal valuations was a combination of the cost of similar works carried out by Council, recent similar contract works, and reference rates for construction of similar earthworks. Both the internal and external valuations are level 3 unobservable inputs valuations due to the fact that market valuation was not a factor in determining the value of the assets.

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

\$ '000

(3) Valuation techniques used to derive level 2 and level 3 fair values (continued)

Stormwater, water and sewer infrastructure assets

All three asset networks were valued by Council staff using recent Council cost of constructing similar assets, recent contractor costs to construct Council assets, and then cross validating the costs to construction cost indexes provided by the NSW Office of Water. The written down value was then assessed by estimating the total and remaining useful lives of the asset to determine the written down current replacement cost of each asset.

Heritage collection assets

These items comprise historical artefacts that have been obtained generally by purchase through antique dealers or through private sale. As there is not an active liquid market in the types of items acquired, they are valued at cost, and therefore have been assessed as being Level 3 unobservable input valuations.

Library books

The library books are reported at fair value in the notes, however, due to the nature of these items they are valued at cost. There are no major variances between the fair value and carrying amount of these assets. The cost of these assets were based on invoices at the time of capitalisation.

Tip and quarry restoration assets

It has been recognised that there will be significant costs associated with the closure and post closure management of the landfill and quarry assets. Closure of the landfill and quarry sites will involve a wide range of activities, including final capping of the landfill waste and site revegetation, monitoring of landfill gas, revision of the surface water management system and leachate management infrastructure to suit post closure operation.

Valuations are based on actual timing of costs and future environmental management requirements.

There were no changes in valuation techniques from prior years.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

| | Capital works in progress | Community land | Land under roads | Land improvements non depreciable | Land improvements depreciable | Buildings non specialised | Buildings specialised | Other structures | Total |
|---|------------------------------|-------------------|---------------------|--|-------------------------------------|---------------------------------|--------------------------|---------------------|----------------|
| Opening balance – 13/5/16 | 7,388 | 35,841 | 7,715 | 1,801 | 3,622 | 16,023 | 65,276 | 53,725 | 191,391 |
| Transfers from/(to) another asset class | (2,050) | – | 7 | – | – | – | 10 | – | (2,033) |
| Purchases (GBV) | 21,579 | – | 1,474 | – | 177 | 134 | 2,809 | 7,378 | 33,551 |
| Disposals (WDV) | – | (1) | – | – | – | – | (85) | (181) | (267) |
| Depreciation and impairment | – | – | – | – | (378) | (524) | (2,218) | (3,873) | (6,993) |
| Closing balance – 30/6/17 | 26,917 | 35,840 | 9,196 | 1,801 | 3,421 | 15,633 | 65,792 | 57,049 | 215,649 |
| Transfers from/(to) another asset class | (11,464) | (149) | 8 | – | (1,094) | (1,069) | 1,062 | 2,958 | (9,748) |
| Purchases (GBV) | 134 | – | 1,751 | – | 447 | 245 | 4,869 | 14,863 | 22,309 |
| Disposals (WDV) | – | – | – | – | – | – | – | – | – |
| Depreciation and impairment | – | – | – | – | (305) | (429) | (2,202) | (3,434) | (6,370) |
| FV gains – other comprehensive income | – | – | – | – | – | 10,227 | 23,504 | – | 33,731 |
| Closing balance – 30/6/18 | 15,587 | 35,691 | 10,955 | 1,801 | 2,469 | 24,607 | 93,025 | 71,436 | 255,571 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) continued

a. The following tables present the changes in level 3 fair value asset classes. (continued)

| | Roads | Airport runways taxiways | Bulk earthworks | Stormwater drainage | Water supply network | Sewerage network | Swimming pools | Other open space recreational | Total |
|---|------------------|--------------------------------|--------------------|------------------------|----------------------------|---------------------|-------------------|-------------------------------------|------------------|
| Opening balance – 13/5/16 | 1,003,645 | 15,785 | 343,553 | 188,233 | 183,837 | 194,112 | 2,884 | 2,109 | 1,934,158 |
| Transfers from/(to) another asset class | 655 | – | – | 53 | 322 | 985 | – | 34 | 2,049 |
| Purchases (GBV) | 12,907 | 614 | 656 | 1,757 | 1,886 | 2,152 | 121 | 426 | 20,519 |
| Disposals (WDV) | (223) | – | (10) | – | (83) | (122) | – | – | (438) |
| Depreciation and impairment | (12,009) | (460) | – | (1,152) | (4,543) | (5,952) | (118) | (151) | (24,385) |
| FV gains – other comprehensive income | – | – | – | – | 53,415 | 69,421 | – | – | 122,836 |
| Closing balance – 30/6/17 | 1,004,975 | 15,939 | 344,199 | 188,891 | 234,834 | 260,596 | 2,887 | 2,418 | 2,054,739 |
| Transfers from/(to) another asset class | 4,208 | 391 | (27) | – | 7,494 | (254) | (85) | (2,418) | 9,309 |
| Purchases (GBV) | 17,710 | 8,886 | 537 | 7,506 | 5,149 | 5,217 | 402 | – | 45,407 |
| Disposals (WDV) | – | – | – | – | (56) | (527) | – | – | (583) |
| Depreciation and impairment | (9,361) | (429) | – | (987) | (5,067) | (4,902) | (100) | – | (20,846) |
| FV gains – other comprehensive income | – | – | – | – | 4,834 | 5,360 | – | – | 10,194 |
| Closing balance – 30/6/18 | 1,017,532 | 24,787 | 344,709 | 195,410 | 247,188 | 265,490 | 3,104 | – | 2,098,220 |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 19. Fair value measurement (continued)

\$ '000

(4). Fair value measurements using significant unobservable inputs (level 3) continued

a. The following tables present the changes in level 3 fair value asset classes. (continued)

| | Quarry Assets | Heritage collections | Library books | Other assets | Tip restoration assets | Quarry restoration assets | Total |
|---|------------------|-------------------------|------------------|-----------------|------------------------------|---------------------------------|--------------|
| Opening balance – 13/5/16 | – | 29 | 1 | 1,293 | 518 | 381 | 2,222 |
| Depreciation and impairment | – | (1) | (1) | (55) | (139) | (15) | (211) |
| Remeasurement - Income Statement | – | – | – | – | (10) | (128) | (138) |
| Closing balance – 30/6/17 | – | 28 | – | 1,238 | 369 | 238 | 1,873 |
| Transfers from/(to) another asset class | 1,997 | – | – | – | – | – | 1,997 |
| Purchases (GBV) | – | – | – | – | 436 | 591 | 1,027 |
| Disposals (WDV) | – | – | – | – | (583) | – | (583) |
| Depreciation and impairment | – | – | – | (45) | (156) | (13) | (214) |
| Closing balance – 30/6/18 | 1,997 | 28 | – | 1,193 | 66 | 816 | 4,100 |

(5). Highest and best use

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

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 20. Related party transactions

\$ '000

a. Key management personnel

Key management personnel (KMP) of the Council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

| Compensation: | 2018 |
|--------------------------|---------------------|
| Short-term benefits | 1,704 |
| Other long-term benefits | 804 |
| Termination benefits | 608 |
| Total | <u>3,116</u> |

b. Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

c. Other related party transactions

Nil

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 21. Statement of developer contributions

\$ '000

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

SUMMARY OF CONTRIBUTIONS AND LEVIES

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|--|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Drainage | 1,641 | 166 | – | 34 | (52) | – | 1,789 | – |
| Roads | 7,481 | 1,476 | – | 165 | (17) | – | 9,105 | – |
| Parking | 93 | – | – | 2 | – | – | 95 | – |
| Open space | 1,581 | 865 | – | 42 | (388) | – | 2,100 | – |
| Voluntary planning agreements | 92 | 136 | – | – | – | – | 228 | – |
| S7.11 contributions – under a plan | 10,888 | 2,643 | – | 243 | (457) | – | 13,317 | – |
| S7.12 levies – under a plan | 31 | – | – | – | – | – | 31 | – |
| Total S7.11 and S7.12 revenue under plans | 10,919 | 2,643 | – | 243 | (457) | – | 13,348 | – |
| S7.11 not under plans | 274 | – | – | – | – | – | 274 | – |
| S64 contributions | 416 | 3,832 | – | 41 | (4,289) | – | – | – |
| Total contributions | 11,609 | 6,475 | – | 284 | (4,746) | – | 13,622 | – |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 21. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN (former Dubbo)

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|-------------------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Drainage | 1,641 | 166 | – | 34 | (52) | – | 1,789 | |
| Roads | 7,481 | 1,476 | – | 165 | (17) | – | 9,105 | |
| Parking | 93 | – | – | 2 | – | – | 95 | |
| Open space | 1,581 | 865 | – | 42 | (388) | – | 2,100 | |
| Voluntary planning agreements | 92 | 136 | – | – | – | – | 228 | |
| Total | 10,888 | 2,643 | – | 243 | (457) | – | 13,317 | – |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 21. Statement of developer contributions (continued)

\$ '000

S7.12 LEVIES – UNDER A PLAN

CONTRIBUTION PLAN NUMBER 2012 (former Wellington)

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|-----------------------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Public order and safety | 5 | – | – | – | – | – | 5 | |
| Community services and education | 5 | – | – | – | – | – | 5 | |
| Household and community amenities | 5 | – | – | – | – | – | 5 | |
| Recreation and culture | 6 | – | – | – | – | – | 6 | |
| Transport and communication | 4 | – | – | – | – | – | 4 | |
| Economic affairs | 6 | – | – | – | – | – | 6 | |
| Total | 31 | – | – | – | – | – | 31 | – |

S7.11 CONTRIBUTIONS – NOT UNDER A PLAN

(former Wellington)

| PURPOSE | Opening balance | Contributions received during the year | | Interest earned in year | Expenditure during year | Internal borrowing (to)/from | Held as restricted asset | Cumulative internal borrowings due/(payable) |
|----------------------|-----------------|--|----------|-------------------------|-------------------------|------------------------------|--------------------------|--|
| | | Cash | Non-cash | | | | | |
| Drainage | 75 | – | – | – | – | – | 75 | |
| Roads | 118 | – | – | – | – | – | 118 | |
| Open space | 35 | – | – | – | – | – | 35 | |
| Community facilities | 10 | – | – | – | – | – | 10 | |
| Emergency services | 36 | – | – | – | – | – | 36 | |
| Total | 274 | – | – | – | – | – | 274 | – |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 22. Financial result and financial position by fund

| Income Statement by fund \$ '000 | 2018 | 2018 | 2018 |
|--|---------------|---------------|----------------------------|
| | Water | Sewer | General¹ |
| Continuing operations | | | |
| Income from continuing operations | | | |
| Rates and annual charges | 7,043 | 11,783 | 38,083 |
| User charges and fees | 19,460 | 5,393 | 29,518 |
| Interest and investment revenue | 969 | 1,361 | 4,164 |
| Other revenues | 41 | 55 | 1,337 |
| Grants and contributions provided for operating purposes | 121 | 121 | 30,461 |
| Grants and contributions provided for capital purposes | 3,369 | 3,687 | 53,748 |
| Other income | | | |
| Net gains from disposal of assets | – | – | 3,017 |
| Share of interests in joint ventures and associates using the equity method | – | – | 151 |
| Total income from continuing operations | 31,003 | 22,400 | 160,479 |
| Expenses from continuing operations | | | |
| Employee benefits and on-costs | 4,878 | 3,588 | 28,721 |
| Borrowing costs | 1,633 | 1,012 | 3,037 |
| Materials and contracts | 4,381 | 2,017 | 26,538 |
| Depreciation and amortisation | 5,280 | 5,014 | 20,113 |
| Other expenses | 2,778 | 1,345 | 11,946 |
| Net losses from the disposal of assets | 50 | 774 | (824) |
| Total expenses from continuing operations | 19,000 | 13,750 | 89,531 |
| Operating result from continuing operations | 12,003 | 8,650 | 70,948 |
| Net operating result for the year | 12,003 | 8,650 | 70,948 |
| Gain on local government amalgamation | | | |
| Assets and liabilities transferred from former councils | – | – | – |
| Net result for the year | 12,003 | 8,650 | 70,948 |
| Net result attributable to each council fund | 12,003 | 8,650 | 70,948 |
| Net operating result for the year before grants and contributions provided for capital purposes | 8,634 | 4,963 | 17,200 |

¹ General fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

Dubbo Regional Council

Notes to the Financial Statements
as at 30 June 2018

Note 22. Financial result and financial position by fund (continued)

| Statement of Financial Position by fund | | | |
|---|----------------|----------------|----------------------------|
| \$ '000 | 2018 | 2018 | 2018 |
| ASSETS | Water | Sewer | General¹ |
| Current assets | | | |
| Cash and cash equivalents | (115) | (622) | 37,492 |
| Investments | 19,500 | 28,658 | 40,910 |
| Receivables | 7,079 | 2,468 | 11,832 |
| Inventories | 168 | – | 1,705 |
| Other | 38 | 12 | 613 |
| Total current assets | 26,670 | 30,516 | 92,552 |
| Non-current assets | | | |
| Investments | 20,163 | 20,000 | 68,501 |
| Receivables | – | – | 629 |
| Inventories | – | – | 2,025 |
| Infrastructure, property, plant and equipment | 260,989 | 283,499 | 1,879,596 |
| Investments accounted for using the equity method | – | – | 1,484 |
| Other | 44 | – | 451 |
| Total non-current assets | 281,196 | 303,499 | 1,952,686 |
| TOTAL ASSETS | 307,866 | 334,015 | 2,045,238 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 644 | 231 | 11,163 |
| Income received in advance | – | – | 328 |
| Borrowings | 1,069 | 1,938 | 1,915 |
| Provisions | 1,180 | – | 12,585 |
| Total current liabilities | 2,893 | 2,169 | 25,991 |
| Non-current liabilities | | | |
| Payables | – | – | 1 |
| Borrowings | 24,865 | 17,490 | 20,079 |
| Provisions | 50 | – | 4,396 |
| Total non-current liabilities | 24,915 | 17,490 | 24,476 |
| TOTAL LIABILITIES | 27,808 | 19,659 | 50,467 |
| Net assets | 280,058 | 314,356 | 1,994,771 |
| EQUITY | | | |
| Accumulated surplus | 220,889 | 239,415 | 1,959,238 |
| Revaluation reserves | 59,169 | 74,941 | 35,533 |
| Total equity | 280,058 | 314,356 | 1,994,771 |

¹ General Fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal receivables and payables between the funds.

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23(a). Statement of performance measures – consolidated results

| \$ '000 | Amounts 2018 | Indicator 2018 | Indicator 2017 | Benchmark |
|--|-----------------|-------------------|-------------------|------------------------|
| Local government industry indicators – consolidated | | | | |
| 1. Operating performance ratio | | | | |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses | <u>27,629</u> | 18.43% | 13.15% | > 0.00% |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions | <u>149,910</u> | | | |
| 2. Own source operating revenue ratio | | | | |
| Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions | <u>119,207</u> | 56.57% | 62.54% | > 60.00% |
| Total continuing operating revenue ⁽¹⁾ | <u>210,714</u> | | | |
| 3. Unrestricted current ratio | | | | |
| Current assets less all external restrictions ⁽²⁾ | <u>103,691</u> | 5.52x | 3.63x | > 1.5x |
| Current liabilities less specific purpose liabilities ^(3, 4) | <u>18,780</u> | | | |
| 4. Debt service cover ratio | | | | |
| Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation | <u>63,718</u> | 6.17x | 5.79x | > 2x |
| Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement) | <u>10,334</u> | | | |
| 5. Rates, annual charges, interest and extra charges outstanding percentage | | | | |
| Rates, annual and extra charges outstanding | <u>2,896</u> | 4.88% | 3.27% | < 10% regional & rural |
| Rates, annual and extra charges collectible | <u>59,376</u> | | | |
| 6. Cash expense cover ratio | | | | |
| Current year's cash and cash equivalents plus all term deposits | <u>217,236</u> | 25.79 | 16.6 mths | > 3 mths |
| Payments from cash flow of operating and financing activities | <u>8,425</u> | mths | | |

Notes

⁽¹⁾ Excludes fair value adjustments and reversal of revaluation decrements, net gain/(loss) on sale of assets and the net share of interests in joint ventures and associates.

⁽²⁾ Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

⁽³⁾ Refer to Notes 10 and 11.

⁽⁴⁾ Refer to Note 10(b) and 11(b) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

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Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23(b). Statement of performance measures – by fund

| \$ '000 | General indicators ⁵ | | Water indicators | | Sewer indicators | | Benchmark |
|---|---------------------------------|--------|------------------|--------|------------------|--------|-----------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Local government industry indicators – by fund | | | | | | | |
| 1. Operating performance ratio | | | | | | | |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses | 13.61% | 10.43% | 31.02% | 22.04% | 26.26% | 17.66% | > 0.00% |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions | | | | | | | |
| 2. Own source operating revenue ratio | | | | | | | |
| Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions | 46.24% | 53.55% | 89.07% | 89.37% | 84.17% | 87.26% | > 60.00% |
| Total continuing operating revenue ⁽¹⁾ | | | | | | | |
| 3. Unrestricted current ratio | | | | | | | |
| Current assets less all external restrictions ⁽²⁾ | 5.52x | 3.63x | 9.22x | 7.55x | 14.07x | 6.58x | > 1.5x |
| Current liabilities less specific purpose liabilities ^(3, 4) | | | | | | | |

Notes

^{(1) - (4)} Refer to Notes at Note 23a above.⁽⁵⁾ General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

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Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23(b). Statement of performance measures – by fund (continued)

| \$ '000 | General indicators ⁵ | | Water indicators | | Sewer indicators | | Benchmark |
|--|---------------------------------|---------------------|------------------|--------|------------------|--------|------------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | |
| Local government industry indicators – by fund (continued) | | | | | | | |
| 4. Debt service cover ratio | | | | | | | |
| Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation | | | | | | | |
| Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement) | 4.87x | 5.35x | 9.39x | 6.14x | 10.81x | 7.43x | > 2x |
| 5. Rates, annual charges, interest and extra charges outstanding percentage | | | | | | | |
| Rates, annual and extra charges outstanding | 1.63% | 3.49% | 4.39% | 2.08% | 16.35% | 3.15% | < 10% regional & rural |
| Rates, annual and extra charges collectible | | | | | | | |
| 6. Cash expense cover ratio | | | | | | | |
| Current year's cash and cash equivalents plus all term deposits | | 19.53 | 0.00 | 4.96 | 0.00 | 5.51 | > 3 months |
| Payments from cash flow of operating and financing activities | x12 | 25.87 months | months | months | months | months | |

Notes

(1) Refer to Notes at Note 23a above.

(5) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

END OF AUDITED FINANCIAL STATEMENTS

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23(c). Statement of performance measures – consolidated results (graphs)

| | | |
|--|---|--|
| <p>1. Operating performance ratio</p> <p>Benchmark: — Minimum >=0.00%</p> <p>Source for benchmark: Code of Accounting Practice and Financial Reporting #26</p> | <p>Purpose of operating performance ratio</p> <p>This ratio measures Council's achievement of containing operating expenditure within operating revenue.</p> | <p>Commentary on 2017/18 result</p> <p>2017/18 ratio 18.43%</p> <p>An increase in the operating performance ratio this year has been due to a reduction in Operating Expenditure.</p> |
| <p>Ratio achieves benchmark (Green bar)</p> <p>Ratio is outside benchmark (Red bar)</p> | | |
| <p>2. Own source operating revenue ratio</p> <p>Benchmark: — Minimum >=60.00%</p> <p>Source for benchmark: Code of Accounting Practice and Financial Reporting #26</p> | <p>Purpose of own source operating revenue ratio</p> <p>This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.</p> | <p>Commentary on 2017/18 result</p> <p>2017/18 ratio 56.57%</p> <p>Own source operating revenue ratio has fallen below the benchmark of 60% this year due to the high level of Grant funding.</p> |
| <p>Ratio achieves benchmark (Green bar)</p> <p>Ratio is outside benchmark (Red bar)</p> | | |
| <p>3. Unrestricted current ratio</p> <p>Benchmark: — Minimum >=1.50</p> <p>Source for benchmark: Code of Accounting Practice and Financial Reporting #26</p> | <p>Purpose of unrestricted current ratio</p> <p>To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.</p> | <p>Commentary on 2017/18 result</p> <p>2017/18 ratio 5.52x</p> <p>The unrestricted current ratio for 2018 has remained very strong. A result above 1.5 indicates a strong ability to meet short term obligations</p> |
| <p>Ratio achieves benchmark (Green bar)</p> <p>Ratio is outside benchmark (Red bar)</p> | | |

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 23(c). Statement of performance measures – consolidated results (graphs)

| | | |
|---|---|---|
| <p>4. Debt service cover ratio</p> <p>Benchmark: — Minimum ≥ 2.00 Source for benchmark: Code of Accounting Practice and Financial Reporting #26</p> | <p>Purpose of debt service cover ratio</p> <p>This ratio measures the availability of operating cash to service debt including interest, principal and lease payments</p> | <p>Commentary on 2017/18 result</p> <p>2017/18 ratio 6.17x</p> <p>This ratio result is particularly strong indicating that there is \$6.2 of cash to meet every \$1.00 of debt. The benchmark for this ratio is 2.00</p> <p>Ratio achieves benchmark Ratio is outside benchmark</p> |
| <p>5. Rates, annual charges, interest and extra charges outstanding percentage</p> <p>Benchmark: — Maximum $< 10.00\%$ Source for Benchmark: Code of Accounting Practice and Financial Reporting #26</p> | <p>Purpose of rates and annual charges outstanding ratio</p> <p>To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.</p> | <p>Commentary on 2017/18 result</p> <p>2017/18 ratio 4.88%</p> <p>Although this ratio has increased from last year a result of 5% represents an extremely strong debt recovery process.</p> <p>Ratio is within Benchmark Ratio is outside Benchmark</p> |
| <p>6. Cash expense cover ratio</p> <p>Benchmark: — Minimum ≥ 3.00 Source for benchmark: Code of Accounting Practice and Financial Reporting #26</p> | <p>Purpose of cash expense cover ratio</p> <p>This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.</p> | <p>Commentary on 2017/18 result</p> <p>2017/18 ratio 25.79 mths</p> <p>The benchmark for this ratio is 3.00. This indicates that Council is in a very strong cash position.</p> <p>Ratio achieves benchmark Ratio is outside benchmark</p> |

Dubbo Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 24. Council information and contact details

Principal place of business:

Church Street
Dubbo NSW 2830

Contact details**Mailing address:**

PO Box 81
Dubbo NSW 2830

Opening hours:

9:00 am to 5:00 pm
Monday to Friday

Telephone: 02 6801 4000**Facsimile:** 02 6801 4259**Internet:** www.dubbo.nsw.gov.au**Email:** dcc@dubbo.nsw.gov.au**Officers****GENERAL MANAGER**

Michael McMahon

RESPONSIBLE ACCOUNTING OFFICER

Jane Bassingthwaighte

PUBLIC OFFICER

Craig Giffin

AUDITORS

Audit Office of New South Wales
GPO Box 12
Sydney NSW 2001

Elected members**MAYOR**

Ben Shields

COUNCILLORS

Annemarie Jones OAM
Jane Diffey
Vicki Etheridge
David Grant
Dayne Gumley
Stephen Lawrence
Greg Mohr
Kevin Parker
John Ryan

Other information**ABN:** 53 539 070 928

Dubbo Regional Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

"Great community, great council"



Dubbo Regional Council

Special Purpose Financial Statements for the year ended 30 June 2018

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Background

- (i) These Special Purpose Financial Statements have been prepared for the use by both Council and the Office of Local Government in fulfilling their requirements under National Competition Policy.
 - (ii) The principle of competitive neutrality is based on the concept of a 'level playing field' between persons/entities competing in a market place, particularly between private and public sector competitors.

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.
 - (iii) For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).
 - (iv) In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).
-

Dubbo Regional Council

Special Purpose Financial Statements for the year ended 30 June 2018

Statement by Councillors and Management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

The attached Special Purpose Financial Statements have been prepared in accordance with:

- the NSW Government Policy Statement 'Application of National Competition Policy to Local Government',
- the Division of Local Government Guidelines 'Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality',
- the Local Government Code of Accounting Practice and Financial Reporting,
- the NSW Office of Water Best-Practice Management of Water and Sewerage Guidelines.

To the best of our knowledge and belief, these financial statements:

- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.

We are not aware of any matter that would render these statements false or misleading in any way.

Signed in accordance with a resolution of Council made on 10 September 2018.

Ben Shields
Mayor

Annemarie Jones OAM
Councillor

Michael McMahon
General manager

Jane Bassingthwaite
Responsible accounting officer

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Dubbo Regional Council

Income Statement of Council's Water Supply Business Activity
for the year ended 30 June 2018

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|--|----------------|-----------------------|
| Income from continuing operations | | |
| Access charges | 7,043 | 7,654 |
| User charges | 19,460 | 16,816 |
| Interest | 969 | 909 |
| Grants and contributions provided for non-capital purposes | 121 | 170 |
| Other income | 41 | 81 |
| Total income from continuing operations | 27,634 | 25,630 |
| Expenses from continuing operations | | |
| Employee benefits and on-costs | 4,878 | 4,770 |
| Borrowing costs | 1,633 | 1,916 |
| Materials and contracts | 4,381 | 5,068 |
| Depreciation, amortisation and impairment | 5,280 | 5,002 |
| Water purchase charges | - | 70 |
| Loss on sale of assets | 50 | 41 |
| Calculated taxation equivalents | 131 | 125 |
| Other expenses | 2,778 | 3,031 |
| Total expenses from continuing operations | 19,131 | 20,023 |
| Surplus (deficit) from continuing operations before capital amounts | 8,503 | 5,607 |
| Grants and contributions provided for capital purposes | 3,369 | 2,858 |
| Surplus (deficit) from continuing operations after capital amounts | 11,872 | 8,465 |
| Surplus (deficit) from all operations before tax | 11,872 | 8,465 |
| Less: corporate taxation equivalent (30%) [based on result before capital] | (2,551) | (1,682) |
| SURPLUS (DEFICIT) AFTER TAX | 9,321 | 6,783 |
| Plus opening retained profits | 208,886 | 200,296 |
| Plus adjustments for amounts unpaid: | | |
| - Taxation equivalent payments | 131 | 125 |
| - Corporate taxation equivalent | 2,551 | 1,682 |
| Closing retained profits | 220,889 | 208,886 |
| Return on capital % | 3.9% | 3.0% |
| Calculation of dividend payable: | | |
| Surplus (deficit) after tax | 9,321 | 6,783 |
| Less: capital grants and contributions (excluding developer contributions) | (3,369) | (2,843) |
| Surplus for dividend calculation purposes | 5,952 | 3,940 |
| Potential dividend calculated from surplus | 2,976 | 1,970 |

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Dubbo Regional Council

Income Statement of Council's Sewerage Business Activity
for the year ended 30 June 2018

| \$ '000 | 2018 | 13/5/16 to 30/6/17 |
|--|----------------|-----------------------|
| Income from continuing operations | | |
| Access charges | 11,783 | 12,729 |
| User charges | 4,687 | 4,857 |
| Liquid trade waste charges | 33 | 39 |
| Fees | 673 | 317 |
| Interest | 1,361 | 1,678 |
| Grants and contributions provided for non-capital purposes | 121 | 141 |
| Profit from the sale of assets | – | 65 |
| Other income | 55 | 66 |
| Total income from continuing operations | 18,713 | 19,892 |
| Expenses from continuing operations | | |
| Employee benefits and on-costs | 3,588 | 3,808 |
| Borrowing costs | 1,012 | 1,252 |
| Materials and contracts | 2,017 | 3,302 |
| Depreciation, amortisation and impairment | 5,014 | 6,144 |
| Loss on sale of assets | 774 | 114 |
| Calculated taxation equivalents | 242 | 225 |
| Other expenses | 1,345 | 1,594 |
| Total expenses from continuing operations | 13,992 | 16,439 |
| Surplus (deficit) from continuing operations before capital amounts | 4,721 | 3,453 |
| Grants and contributions provided for capital purposes | 3,687 | 2,733 |
| Surplus (deficit) from continuing operations after capital amounts | 8,408 | 6,186 |
| Surplus (deficit) from all operations before tax | 8,408 | 6,186 |
| Less: corporate taxation equivalent (30%) [based on result before capital] | (1,416) | (1,036) |
| SURPLUS (DEFICIT) AFTER TAX | 6,992 | 5,150 |
| Plus opening retained profits | 230,765 | 224,354 |
| Plus adjustments for amounts unpaid: | | |
| – Taxation equivalent payments | 242 | 225 |
| – Corporate taxation equivalent | 1,416 | 1,036 |
| Closing retained profits | 239,415 | 230,765 |
| Return on capital % | 2.0% | 1.7% |
| Subsidy from Council | 1,808 | 1,922 |
| Calculation of dividend payable: | | |
| Surplus (deficit) after tax | 6,992 | 5,150 |
| Less: capital grants and contributions (excluding developer contributions) | (3,687) | (2,715) |
| Surplus for dividend calculation purposes | 3,305 | 2,435 |
| Potential dividend calculated from surplus | 1,652 | 1,218 |

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Dubbo Regional Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

| \$ '000 | Dubbo City Regional Airport Category 1 | | Livestock Markets Category 1 | |
|--|--|-----------------------|---------------------------------|-----------------------|
| | 2018 | 13/5/16 to 30/6/17 | 2018 | 13/5/16 to 30/6/17 |
| Income from continuing operations | | | | |
| User charges | 3,952 | 4,362 | 4,098 | 3,860 |
| Other income | 136 | 187 | 28 | 34 |
| Total income from continuing operations | 4,088 | 4,549 | 4,126 | 3,894 |
| Expenses from continuing operations | | | | |
| Employee benefits and on-costs | 498 | 459 | 558 | 649 |
| Borrowing costs | 64 | 152 | – | – |
| Materials and contracts | 1,811 | 1,830 | 1,229 | 1,205 |
| Depreciation, amortisation and impairment | 785 | 826 | 1,295 | 1,280 |
| Loss on sale of assets | – | – | – | 293 |
| Calculated taxation equivalents | 119 | 100 | 12 | 7 |
| Other expenses | 600 | 254 | 210 | 197 |
| Total expenses from continuing operations | 3,877 | 3,621 | 3,304 | 3,631 |
| Surplus (deficit) from continuing operations before capital amounts | 211 | 928 | 822 | 263 |
| Grants and contributions provided for capital purposes | 10,193 | 284 | 329 | 2,962 |
| Surplus (deficit) from continuing operations after capital amounts | 10,404 | 1,212 | 1,151 | 3,225 |
| Surplus (deficit) from all operations before tax | 10,404 | 1,212 | 1,151 | 3,225 |
| Less: corporate taxation equivalent (30%) [based on result before capital] | (63) | (278) | (247) | (79) |
| SURPLUS (DEFICIT) AFTER TAX | 10,341 | 934 | 904 | 3,146 |
| Plus opening retained profits | 27,283 | 25,971 | 25,050 | 21,818 |
| Plus adjustments for amounts unpaid: | | | | |
| – Taxation equivalent payments | 119 | 100 | 12 | 7 |
| – Corporate taxation equivalent | 63 | 278 | 247 | 79 |
| Closing retained profits | 37,806 | 27,283 | 26,213 | 25,050 |
| Return on capital % | 0.7% | 4.0% | 4.0% | 1.3% |
| Subsidy from Council | 833 | – | – | 229 |

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Dubbo Regional Council

Income Statement of Council's Other Business Activities

for the year ended 30 June 2018

| \$ '000 | Property Development Category 1 | | Dubbo City Holiday Park Category 2 | |
|--|------------------------------------|-----------------------|--|-----------------------|
| | 2018 | 13/5/16 to 30/6/17 | 2018 | 13/5/16 to 30/6/17 |
| Income from continuing operations | | | | |
| User charges | – | – | 1,909 | 1,915 |
| Interest | 123 | 26 | – | – |
| Profit from the sale of assets | 3,359 | 4,205 | – | – |
| Other income | 12 | 12 | – | – |
| Total income from continuing operations | 3,494 | 4,243 | 1,909 | 1,915 |
| Expenses from continuing operations | | | | |
| Employee benefits and on-costs | 159 | 2 | 28 | 4 |
| Borrowing costs | – | – | 13 | 40 |
| Materials and contracts | 193 | 2,400 | 1,105 | 1,146 |
| Depreciation, amortisation and impairment | – | – | 172 | 200 |
| Calculated taxation equivalents | 209 | 297 | 63 | 62 |
| Other expenses | 1 | – | 186 | 227 |
| Total expenses from continuing operations | 562 | 2,699 | 1,567 | 1,679 |
| Surplus (deficit) from continuing operations before capital amounts | 2,932 | 1,544 | 342 | 236 |
| Surplus (deficit) from continuing operations after capital amounts | 2,932 | 1,544 | 342 | 236 |
| Surplus (deficit) from all operations before tax | 2,932 | 1,544 | 342 | 236 |
| Less: corporate taxation equivalent (30%) [based on result before capital] | (880) | (463) | (103) | (71) |
| SURPLUS (DEFICIT) AFTER TAX | 2,052 | 1,081 | 239 | 165 |
| Plus opening retained profits | 9,199 | 7,358 | 5,443 | 5,145 |
| Plus adjustments for amounts unpaid: | | | | |
| – Taxation equivalent payments | 209 | 297 | 63 | 62 |
| – Corporate taxation equivalent | 880 | 463 | 103 | 71 |
| Closing retained profits | 12,340 | 9,199 | 5,848 | 5,443 |
| Return on capital % | n/a | n/a | 5.7% | 5.7% |

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Dubbo Regional Council

Income Statement of Council's Other Business Activities
for the year ended 30 June 2018

| \$ '000 | Rainbow Cottage | |
|--|-----------------|-----------------------|
| | Category 2 | |
| | 2018 | 13/5/16 to 30/6/17 |
| Income from continuing operations | | |
| User charges | 640 | 726 |
| Grants and contributions provided for non-capital purposes | 527 | 581 |
| Total income from continuing operations | 1,167 | 1,307 |
| Expenses from continuing operations | | |
| Employee benefits and on-costs | 939 | 1,004 |
| Materials and contracts | 347 | 374 |
| Depreciation, amortisation and impairment | 33 | 35 |
| Calculated taxation equivalents | 7 | 7 |
| Other expenses | 26 | 24 |
| Total expenses from continuing operations | 1,352 | 1,444 |
| Surplus (deficit) from continuing operations before capital amounts | (185) | (137) |
| Surplus (deficit) from continuing operations after capital amounts | (185) | (137) |
| Surplus (deficit) from all operations before tax | (185) | (137) |
| Less: corporate taxation equivalent (30%) [based on result before capital] | - | - |
| SURPLUS (DEFICIT) AFTER TAX | (185) | (137) |
| Plus opening retained profits | 630 | 760 |
| Plus adjustments for amounts unpaid: | | |
| - Taxation equivalent payments | 7 | 7 |
| Closing retained profits | 452 | 630 |
| Return on capital % | -13.2% | -21.4% |
| Subsidy from Council | 222 | 152 |

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Dubbo Regional Council

Statement of Financial Position – Council's Water Supply Business Activity
as at 30 June 2018

| \$ '000 | 2018 | 2017 |
|---|----------------|----------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | (115) | 6,204 |
| Investments | 19,500 | 10,000 |
| Receivables | 7,079 | 4,744 |
| Inventories | 168 | 223 |
| Other | 38 | 5 |
| Total current assets | 26,670 | 21,176 |
| Non-current assets | | |
| Investments | 20,163 | 15,500 |
| Infrastructure, property, plant and equipment | 260,989 | 254,330 |
| Other | 44 | 44 |
| Total non-current assets | 281,196 | 269,874 |
| TOTAL ASSETS | 307,866 | 291,050 |
| LIABILITIES | | |
| Current liabilities | | |
| Payables | 644 | 805 |
| Borrowings | 1,069 | 1,012 |
| Provisions | 1,180 | 965 |
| Total current liabilities | 2,893 | 2,782 |
| Non-current liabilities | | |
| Borrowings | 24,865 | 25,934 |
| Provisions | 50 | 33 |
| Total non-current liabilities | 24,915 | 25,967 |
| TOTAL LIABILITIES | 27,808 | 28,749 |
| NET ASSETS | 280,058 | 262,301 |
| EQUITY | | |
| Accumulated surplus | 220,889 | 208,886 |
| Revaluation reserves | 59,169 | 53,415 |
| TOTAL EQUITY | 280,058 | 262,301 |

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Dubbo Regional Council

Statement of Financial Position – Council's Sewerage Business Activity
as at 30 June 2018

| \$ '000 | 2018 | 2017 |
|---|----------------|----------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | (622) | 4,677 |
| Investments | 28,658 | 8,500 |
| Receivables | 2,468 | 2,334 |
| Other | 12 | – |
| Total current Assets | 30,516 | 15,511 |
| Non-current assets | | |
| Investments | 20,000 | 28,000 |
| Infrastructure, property, plant and equipment | 283,499 | 278,430 |
| Total non-current assets | 303,499 | 306,430 |
| TOTAL ASSETS | 334,015 | 321,941 |
| LIABILITIES | | |
| Current liabilities | | |
| Payables | 231 | 359 |
| Borrowings | 1,938 | 1,849 |
| Provisions | – | 113 |
| Total current liabilities | 2,169 | 2,321 |
| Non-current liabilities | | |
| Borrowings | 17,490 | 19,429 |
| Provisions | – | 5 |
| Total non-current liabilities | 17,490 | 19,434 |
| TOTAL LIABILITIES | 19,659 | 21,755 |
| NET ASSETS | 314,356 | 300,186 |
| EQUITY | | |
| Accumulated surplus | 239,415 | 230,765 |
| Revaluation reserves | 74,941 | 69,421 |
| TOTAL EQUITY | 314,356 | 300,186 |

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Dubbo Regional Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

| \$ '000 | Dubbo City Regional Airport Category 1 | | Livestock Markets Category 1 | |
|---|--|---------------|---------------------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 1 | 1 | – | – |
| Investments | 2,819 | 1,624 | 5,551 | 4,192 |
| Receivables | 87 | 250 | 332 | 442 |
| Total Current Assets | 2,907 | 1,875 | 5,883 | 4,634 |
| Non-current assets | | | | |
| Infrastructure, property, plant and equipment | 41,636 | 26,963 | 20,616 | 20,652 |
| Total non-current assets | 41,636 | 26,963 | 20,616 | 20,652 |
| TOTAL ASSETS | 44,543 | 28,838 | 26,499 | 25,286 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Payables | 231 | 101 | 88 | 67 |
| Borrowings | 787 | 163 | – | – |
| Provisions | 197 | 120 | 180 | 158 |
| Total current liabilities | 1,215 | 384 | 268 | 225 |
| Non-current liabilities | | | | |
| Borrowings | 2,226 | 1,163 | – | – |
| Provisions | 6 | 8 | 18 | 11 |
| Total non-current liabilities | 2,232 | 1,171 | 18 | 11 |
| TOTAL LIABILITIES | 3,447 | 1,555 | 286 | 236 |
| NET ASSETS | 41,096 | 27,283 | 26,213 | 25,050 |
| EQUITY | | | | |
| Accumulated surplus | 37,806 | 27,283 | 26,213 | 25,050 |
| Revaluation reserves | 3,290 | – | – | – |
| TOTAL EQUITY | 41,096 | 27,283 | 26,213 | 25,050 |

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Dubbo Regional Council

Statement of Financial Position – Council's Other Business Activities

as at 30 June 2018

| | Property Development | | Dubbo City Holiday Park | |
|---|----------------------|--------------|-------------------------|--------------|
| | Category 1 | | Category 2 | |
| \$ '000 | 2018 | 2017 | 2018 | 2017 |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | – | – | 1 | – |
| Investments | 9,393 | 5,534 | 1,424 | 1,002 |
| Receivables | – | 1,111 | – | – |
| Inventories | 773 | 659 | – | – |
| Total Current Assets | 10,166 | 7,304 | 1,425 | 1,002 |
| Non-current assets | | | | |
| Inventories | 2,180 | 1,895 | – | – |
| Infrastructure, property, plant and equipment | – | – | 6,174 | 4,871 |
| Total non-current assets | 2,180 | 1,895 | 6,174 | 4,871 |
| TOTAL ASSETS | 12,346 | 9,199 | 7,599 | 5,873 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Payables | 6 | – | 9 | 67 |
| Borrowings | – | – | 121 | 117 |
| Total current liabilities | 6 | – | 130 | 184 |
| Non-current liabilities | | | | |
| Borrowings | – | – | 125 | 246 |
| Total non-current liabilities | – | – | 125 | 246 |
| TOTAL LIABILITIES | 6 | – | 255 | 430 |
| NET ASSETS | 12,340 | 9,199 | 7,344 | 5,443 |
| EQUITY | | | | |
| Accumulated surplus | 12,340 | 9,199 | 5,848 | 5,443 |
| Revaluation reserves | – | – | 1,496 | – |
| TOTAL EQUITY | 12,340 | 9,199 | 7,344 | 5,443 |

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Dubbo Regional Council

Statement of Financial Position – Council's Other Business Activities
as at 30 June 2018

| | Rainbow Cottage | |
|---|-----------------|------------|
| | Category 2 | |
| \$ '000 | 2018 | 2017 |
| ASSETS | | |
| Current assets | | |
| Investments | 37 | 199 |
| Receivables | 13 | 13 |
| Total Current Assets | 50 | 212 |
| Non-current assets | | |
| Infrastructure, property, plant and equipment | 1,406 | 640 |
| Total non-current assets | 1,406 | 640 |
| TOTAL ASSETS | 1,456 | 852 |
| LIABILITIES | | |
| Current liabilities | | |
| Payables | 32 | 13 |
| Provisions | 214 | 197 |
| Total current liabilities | 246 | 210 |
| Non-current liabilities | | |
| Provisions | 17 | 12 |
| Total non-current liabilities | 17 | 12 |
| TOTAL LIABILITIES | 263 | 222 |
| NET ASSETS | 1,193 | 630 |
| EQUITY | | |
| Accumulated surplus | 452 | 630 |
| Revaluation reserves | 741 | – |
| TOTAL EQUITY | 1,193 | 630 |

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Dubbo Regional Council

Special Purpose Financial Statements for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

| Note | Details | Page |
|------|--|------|
| 1 | Summary of significant accounting policies | 14 |
| 2 | Water Supply Business Best-Practice Management disclosure requirements | 18 |
| 3 | Sewerage Business Best-Practice Management disclosure requirements | 20 |

Dubbo Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the Local Government (General) Regulation, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

The framework for its application is set out in the June 1996 NSW government policy statement titled 'Application of National Competition Policy to Local Government'.

The Pricing and Costing for Council Businesses, A Guide to Competitive Neutrality issued by the Office of Local Government in July 1997 has also been adopted.

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

In accordance with *Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*, Council has declared that the following are to be considered as business activities:

Category 1

(where gross operating turnover is over \$2 million)

a. Water Supply Service

Comprising the whole of the water supply operations and net assets servicing the city of Dubbo, the town of Wellington and the villages of Wongarbron, Ballimore, Brocklehurst, Geurie, Mumbil and North Yeoval.

b. Sewerage Service

Comprising the whole of the sewerage reticulation and treatment operations and net assets system servicing the city of Dubbo, the town of Wellington and the villages of Wongarbron, Brocklehurst, Geurie and Mumbil.

Dubbo Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

c. Dubbo City Regional Airport

Comprising the whole of the airport operations and net assets located on Coreena Road.

d. Dubbo Regional Livestock Markets

Comprising the whole of the livestock markets operations and net assets located on Boothenba Road.

e. Property Development

Council's property development function competes with other private land developers in Dubbo in the development of both industrial and residential land for purchase.

NB. The surplus on disposal of land is disclosed in the Income Statement of the Business Activities as operating revenue. In the General Purpose Financial Statements this is disclosed as gain/(loss) on disposal of assets.

Category 2

(where gross operating turnover is less than \$2 million)

a. Dubbo City Holiday Park

Comprising the whole of the holiday park operations and net assets located on Whylandra Street.

The park offers accommodation for caravans, cabin accommodation and tent sites. The Dubbo City Holiday Park is in direct competition with other caravan parks within Dubbo.

b. Rainbow Cottage Long Day Care Centre

Rainbow Cottage, located in Mitchell Street, provides day care for children aged between 0 and 5 years.

Several other long day care facilities operate within Dubbo, and Rainbow Cottage is in direct competition with these centres.

Monetary amounts

Amounts shown in the financial statements are in Australian currency and rounded to the nearest thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by Crown Lands and Water (CLAW), the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

(i) Taxation-equivalent charges

Council is liable to pay various taxes and financial duties. Where this is the case, they are disclosed as a cost of operations just like all other costs.

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

For the purposes of disclosing comparative information relevant to the private sector equivalent, the following taxation equivalents have been applied to all Council-nominated business activities (this does not include Council's non-business activities):

Dubbo Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first \$629,000 of combined land values attracts 0%. For the combined land values in excess of \$629,001 up to \$3,846,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$3,846,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$750,000.

In accordance with Crown Lands and Water (CLAW), a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the NSW Office of Water Guidelines to as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the NSW Office of Water Guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

Whilst income tax is not a specific cost for the purpose of pricing a good or service, it needs to be taken into account in terms of assessing the rate of return required on capital invested.

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 30%.

Income tax is only applied where a gain/ (loss) from ordinary activities before capital amounts has been achieved.

Since the taxation equivalent is notional – that is, it is payable to Council as the 'owner' of business operations - it represents an internal payment and has no effect on the operations of the Council. Accordingly, there is no need for disclosure of internal charges in the SPFS.

The rate applied of 30% is the equivalent company tax rate prevalent at reporting date.

Local government rates and charges

A calculation of the equivalent rates and charges payable on all category 1 businesses has been applied to all land assets owned or exclusively used by the business activity.

Loan and debt guarantee fees

The debt guarantee fee is designed to ensure that council business activities face 'true' commercial borrowing costs in line with private sector competitors.

In order to calculate a debt guarantee fee, Council has determined what the differential borrowing rate would have been between the commercial rate and Council's borrowing rate for its business activities.

Dubbo Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

(ii) Subsidies

Government policy requires that subsidies provided to customers, and the funding of those subsidies, must be explicitly disclosed.

Subsidies occur when Council provides services on a less-than-cost-recovery basis. This option is exercised on a range of services in order for Council to meet its community service obligations.

Accordingly, 'subsidies disclosed' (in relation to National Competition Policy) represents the difference between revenue generated from 'rate of return' pricing and revenue generated from prices set by Council in any given financial year.

The overall effect of subsidies is contained within the Income Statement of each reported business activity.

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

Such funds are subsequently available for meeting commitments or financing future investment strategies.

The actual rate of return achieved by each business activity is disclosed at the foot of each respective Income Statement.

The rate of return is calculated as follows:

$$\frac{\text{Operating result before capital income + interest expense}}{\text{Written down value of I,PP\&E as at 30 June}}$$

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 2.66% at 30/6/18.

(iv) Dividends

Council is not required to pay dividends to either itself (as owner of a range of businesses) or to any external entities.

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage business surplus.

Each dividend must be calculated and approved in accordance with the DPIW guidelines and must not exceed:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2018 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the DPIW guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the DPIW.

END OF AUDITED SPECIAL PURPOSE FINANCIAL STATEMENTS

Dubbo Regional Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018

Note 2. Water supply business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

| | |
|--|---------|
| (i) Calculated tax equivalents | 131,000 |
| (ii) Number of assessments multiplied by \$3/assessment | 59,829 |
| (iii) Amounts payable for tax equivalents [lesser of (i) and (ii)] | 59,829 |
| (iv) Amounts actually paid for tax equivalents | |

2. Dividend from surplus

| | |
|---|-----------|
| (i) 50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines] | 2,976,050 |
| (ii) Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment | 538,461 |
| (iii) Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 12 May 2016 | 9,892,000 |

| | | | | | |
|--------------|-----------|---------------|-----------|---------------|--|
| 2018 Surplus | 5,952,100 | 2017 Surplus | 3,939,900 | 2016 Surplus | |
| | | 2017 Dividend | - | 2016 Dividend | |

| | |
|--|---------|
| (iv) Maximum dividend from surplus [least of (i), (ii) and (iii) above] | 538,461 |
| (v) Dividend actually paid from surplus [refer below for required pre-dividend payment criteria] | |
| (vi) Are the overhead reallocation charges to the water business fair and reasonable? ^a | YES |

3. Required outcomes for 6 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

| | |
|--|-----|
| (i) Completion of strategic business plan (including financial plan) | YES |
| (ii) Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines] | YES |
| – Complying charges [item 2 (b) in table 1] | YES |
| – DSP with commercial developer charges [item 2 (e) in table 1] | YES |
| – If dual water supplies, complying charges [item 2 (g) in table 1] | YES |
| (iii) Sound water conservation and demand management implemented | YES |
| (iv) Sound drought management implemented | YES |
| (v) Complete performance reporting form (by 15 September each year) | YES |
| (vi) a. Integrated water cycle management evaluation | YES |
| b. Complete and implement integrated water cycle management strategy | YES |

Dubbo Regional Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 2. Water supply business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

National Water Initiative (NWI) financial performance indicators

| | | | |
|---------|---|--------|---------|
| NWI F1 | Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a) | \$'000 | 30,034 |
| NWI F4 | Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)] | % | 79.24% |
| NWI F9 | Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47) | \$'000 | 259,821 |
| NWI F11 | Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2) | \$'000 | 11,909 |
| NWI F14 | Capital expenditure (water) Acquisition of fixed assets (w16) | \$'000 | 869 |
| NWI F17 | Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)] | % | 4.97% |
| NWI F26 | Capital works grants (water) Grants for the acquisition of assets (w11a) | \$'000 | – |

- Notes:
- References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Dubbo Regional Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018

Note 3. Sewerage business
best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

| | |
|--|---------|
| (i) Calculated tax equivalents | 242,000 |
| (ii) Number of assessments multiplied by \$3/assessment | 55,383 |
| (iii) Amounts payable for tax equivalents [lesser of (i) and (ii)] | 55,383 |
| (iv) Amounts actually paid for tax equivalents | |

2. Dividend from surplus

| | |
|---|-----------|
| (i) 50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines] | 1,652,350 |
| (ii) Number of assessments x (\$30 less tax equivalent charges per assessment) | 498,447 |
| (iii) Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 12 May 2016 | 5,739,800 |

| | | | | | |
|--------------|-----------|---------------|-----------|---------------|--|
| 2018 Surplus | 3,304,700 | 2017 Surplus | 2,435,100 | 2016 Surplus | |
| | | 2017 Dividend | - | 2016 Dividend | |

| | |
|--|---------|
| (iv) Maximum dividend from surplus [least of (i), (ii) and (iii) above] | 498,447 |
| (v) Dividend actually paid from surplus [refer below for required pre-dividend payment criteria] | |
| (vi) Are the overhead reallocation charges to the sewer business fair and reasonable? ^a | YES |

3. Required outcomes for 4 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

| | |
|---|-----|
| (i) Completion of strategic business plan (including financial plan) | YES |
| (ii) Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines] | YES |
| Complying charges (a) Residential [item 2 (c) in table 1] | YES |
| (b) Non-residential [item 2 (c) in table 1] | YES |
| (c) Trade waste [item 2 (d) in table 1] | YES |
| DSP with commercial developer charges [item 2 (e) in table 1] | YES |
| Liquid trade waste approvals and policy [item 2 (f) in table 1] | YES |
| (iii) Complete performance reporting form (by 15 September each year) | YES |
| (iv) a. Integrated water cycle management evaluation | YES |
| b. Complete and implement integrated water cycle management strategy | YES |

Dubbo Regional Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

National Water Initiative (NWI) financial performance indicators

| | | | |
|---------|--|--------|---------|
| NWI F2 | Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a) | \$'000 | 21,041 |
| NWI F10 | Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48) | \$'000 | 282,457 |
| NWI F12 | Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2) | \$'000 | 6,924 |
| NWI F15 | Capital expenditure (sewerage) Acquisition of fixed assets (s17) | \$'000 | 416 |
| NWI F18 | Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)] | % | 3.23% |
| NWI F27 | Capital works grants (sewerage) Grants for the acquisition of assets (12a) | \$'000 | – |

National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)

| | | | |
|---------|---|--------|--------|
| NWI F3 | Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10) | \$'000 | 50,251 |
| NWI F8 | Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3) | % | 0.48% |
| NWI F16 | Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17) | \$'000 | 1,285 |
| NWI F19 | Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)] | % | 4.07% |
| NWI F20 | Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3) | \$'000 | – |
| NWI F21 | Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24) | % | 0.00% |

Dubbo Regional Council

Notes to the Special Purpose Financial Statements
for the year ended 30 June 2018Note 3. Sewerage business
best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

**National Water Initiative (NWI) financial performance indicators
Water and sewer (combined)**

| | | | |
|----------------|---|--------|--------|
| NWI F22 | Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)] | % | –7.10% |
| NWI F23 | Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): 22,148 Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: 320 Interest expense (w4a + s4a) – interest income (w9 + s10) | | 69 |
| NWI F24 | Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv)) | \$'000 | 20,657 |
| NWI F25 | Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b) | \$'000 | 242 |

- Notes:
- References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
- a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Dubbo Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 19. Fair value measurement

\$ '000

The Council measures the following asset and liability classes at fair value on a recurring basis:

– Infrastructure, property, plant and equipment

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).

(1) The following table presents all assets and liabilities that have been measured and recognised at fair values:

| 2018 | Date of latest valuation | Fair value measurement hierarchy | | | Total |
|--|--------------------------------|---|--|--|------------------|
| | | Level 1 Quoted prices in active mkts | Level 2 Significant observable inputs | Level 3 Significant unobservable inputs | |
| Recurring fair value measurements | | | | | |
| Infrastructure, property, plant and equipment | | | | | |
| Capital works in progress | 30/06/17 | – | – | 15,587 | 15,587 |
| Plant and equipment | 30/06/14 | – | 27,312 | – | 27,312 |
| Office equipment | 30/06/14 | – | 1,694 | – | 1,694 |
| Furniture and fittings | 30/06/14 | – | 1,643 | – | 1,643 |
| Operational land | 30/06/18 | – | 35,545 | – | 35,545 |
| Community land | 30/06/11 | – | – | 35,691 | 35,691 |
| Land under roads (post 30/06/2008) | At cost | – | – | 10,955 | 10,955 |
| Land improvements - non-depreciable | 30/06/10 | – | – | 1,801 | 1,801 |
| Land improvement - depreciable | 30/06/08 | – | – | 2,468 | 2,468 |
| Buildings - non-specialised | 30/06/18 | – | 24,607 | – | 24,607 |
| Buildings - specialised | 30/06/18 | – | 93,025 | – | 93,025 |
| Other structures | 30/06/13 | – | – | 71,435 | 71,435 |
| Roads | 30/06/15 | – | – | 1,017,532 | 1,017,532 |
| Airport runways/taxiways | 30/06/15 | – | – | 24,787 | 24,787 |
| Bulk earthworks | 30/06/15 | – | – | 344,709 | 344,709 |
| Stormwater drainage | 30/06/15 | – | – | 195,411 | 195,411 |
| Water supply network | 30/06/17 | – | – | 247,188 | 247,188 |
| Sewerage network | 30/06/17 | – | – | 265,490 | 265,490 |
| Swimming pools | 12/05/16 | – | – | 3,104 | 3,104 |
| Quarry assets | 30/06/14 | – | – | 1,997 | 1,997 |
| Heritage collections | 30/06/07 | – | – | 28 | 28 |
| Other assets | 30/06/07 | – | – | 1,193 | 1,193 |
| Tip restoration assets | 30/06/18 | – | – | 66 | 66 |
| Quarry restoration assets | 30/06/18 | – | – | 816 | 816 |
| Total infrastructure, property, plant and equipment | | – | 183,826 | 2,240,258 | 2,424,084 |

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