



Ararat Rural City

MINUTES

Audit Committee

Tuesday 3 September 2019

To be held in the Council Chamber
Shire Hall, 233-235 Barkly Street, Ararat

Commenced at 1.06pm

Audit Committee:

Mr Homi Burjorjee
Cr Peter Beales (Mayor)
Cr Bill Braithwaite
Dr Tim Harrison
Mr Robert Tommasini
Mr Brian Keane
Mr Brad Ead
Ms Cassandra Gravenall
Ms Julie Cronin
Mr Alistair Rowe

Our Vision

Our communities, our opportunities

Our Mission Statement

We will demonstrate leadership through social responsibility, openness and transparency by actively working with our community to achieve shared goals.

Our Values

- Respect - Respect for each other and the wider community.
- Excellence - Striving for ongoing professionalism and organisational excellence.
- Passion - Passion for our people, community and services.

SECTION 1 – PROCEDURAL MATTERS	2
1.1 APOLOGIES.....	2
1.2 CONFIRMATION OF MINUTES.....	2
1.3 DECLARATION OF DISCLOSURE OF INTERESTS.....	2
SECTION 2 – EXECUTIVE UPDATES.....	3
2.1 CHIEF EXECUTIVE OFFICER UPDATE.....	3
2.2 AUDIT COMMITTEE ANNUAL REPORT	5
SECTION 3 – MATTERS ARISING FROM PREVIOUS MINUTES – 4 JUNE 2019.....	8
3.1 ARARAT RURAL CITY COUNCIL RISK MANAGEMENT FRAMEWORK	8
3.2 ARARAT RURAL CITY COUNCIL INSURANCE POLICY UPDATE – CONFIDENTIAL.....	9
SECTION 4 – REPORTS REQUIRING AUDIT COMMITTEE DECISION	10
4.1 FINANCIAL STATEMENTS AND PERFORMANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2019.....	10
4.2 INTERNAL AUDIT – HUMAN RESOURCES RISK MANAGEMENT.....	13
SECTION 5 – INFORMATION REPORTS	15
5.1 EXTERNAL REPORTING - FINANCIAL REPORT FOR PERIOD ENDED 30 JUNE 2019.....	15
5.2 EXTERNAL AUDIT – MANAGEMENT LETTER FOR YEAR ENDED 30 JUNE 2019.....	16
5.3 EXTERNAL AUDIT – CLOSING REPORT FOR YEAR ENDED 30 JUNE 2019.....	17
5.4 INTERNAL AUDIT – AUDIT REVIEW OUTCOMES.....	18
5.5 INTERNAL AUDIT – INTERNAL AUDIT PROGRAM STATUS	19
5.6 INTERNAL AUDIT – QUARTERLY INDUSTRY UPDATE.....	20
5.7 INTERNAL AUDIT – PAST ISSUES REPORT	21
5.8 VAGO REPORT – FRAUD AND CORRUPTION CONTROL.....	22
5.9 VAGO REPORT – ASSET MANAGEMENT AND COMPLIANCE.....	24
5.10 VAGO REPORT – LOCAL GOVERNMENT PERFORMANCE	26
5.11 VAGO REPORT – LOCAL GOVERNMENT INSURANCE RISKS	28
5.12 AUDIT COMMITTEE ANNUAL WORK PLAN.....	29
5.13 FUTURE AUDIT COMMITTEE ITEMS.....	32
SECTION 6 – FUTURE MEETINGS	33
6.1 FUTURE MEETING DATES.....	33

SECTION 1 – PROCEDURAL MATTERS

1.1 APOLOGIES

There were no apologies.

1.2 CONFIRMATION OF MINUTES

RECOMMENDATION

That the Minutes of the Internal Audit Committee Meeting held on 4 June 2019 be confirmed.

MOVED - MR ROBERT TOMMASINI
SECONDED - MR BRIAN KEANE

That the Minutes of the Internal Audit Committee Meeting held on 4 June 2019 be confirmed, subject to the following amendments:

1. Item 3.4 – Insert a heading at the top of the report table; and
2. Item 3.5 – Addition to report "It was confirmed that a review of relevant licenses and permits was included in the scope of the HR Risk Management audit".

CARRIED

1.3 DECLARATION OF DISCLOSURE OF INTERESTS

There were no disclosure of interests submitted.

SECTION 2 – EXECUTIVE UPDATES

2.1 CHIEF EXECUTIVE OFFICER UPDATE

BACKGROUND

The Audit Committee has asked the Chief Executive Officer (CEO) to provide an update of any items of interest at each meeting. At the meeting held 5 March 2019 the CEO agreed to provide further information on service reviews.

DISCUSSION

Digital Transformation

We have now started to progress the digital transformation program with the implementation of Office 365 as the organisational productivity suite and email system. The transition is being managed in-house and a brief paper describing this process is included with the Audit Committee Agenda.

The Four-Council Regional Councils Transformation Program (RCTP) bid for government funding was unsuccessful. This was based on system integration between Ararat Rural City and the Shires of Northern Grampians, Southern Grampians and Pyrenees. However, the Central Highlands Councils RCTP bid was successful, providing \$4.5 million to support resource sharing across 14 service areas over a four-year period.

FAST Project outcomes

Local Government Victoria, through the FAST program, provided funding for Grant Thornton to undertake an assessment of Council's financial management system and Chart of Accounts. Grant Thornton are currently finalising the report. I have met with Grant Thornton twice recently and the key findings of the report are:

- Council's current Chart of Accounts is large and unwieldy and does not support effective or efficient financial reporting to the level required by the organisation.
- Council's current Finesse based Financial Management System that has been used for around 30 years is essentially obsolete and requires a range of 'add-ons' and 'work-arounds' to support reporting.

Over the next twelve months Council will be investigating the implementation of a new Chart of Accounts and the purchase of a new Financial Management System.

Budget management

Council is developing a stronger accountability structure around budget management. The CEO's Executive Officer (EO) will be meeting monthly with all budget owners to monitor performance. We are working to establish monthly 'budget profiles' which will provide more accurate understandings of year to date performance against budget.

Service Reviews

The Service Review process has been completed with all Council services being reviewed and reported on. An implementation plan is currently being developed by the Organisational Transformation Team to ensure the implementation of the recommendations of the service reviews. The implementation plan will be completed by 30/09/2019.

Performance Reporting

A dashboard has been developed to provide a means for reporting on organisational and service based KPIs on a monthly basis. The dashboard is currently set up with the Local Government Performance Reporting Framework

(LGPRF) indicators and will be augmented by additional indicators from each service area as they are identified and implemented.

Internal Audit Response

Higher levels of organisational and service- level accountability have been established around the outcomes of internal audit reports. This is being driven from the CEO's Office by the EO. There will be noted improvements in responsiveness to implementing recommendations and improved reporting to the Audit Committee.

Response to External Reports and Inquiries

Recommendations from external reports and inquiries, such as those undertaken by VAGO and the Ombudsman, will be seen as opportunities for performance improvement, improved risk management and organisational learning. We will report on our response to the recommendations of each report to the Audit Committee.

Risk Management

We are currently working through the implementation of a new risk management regime. Over the last few years Council had engaged significant resources in risk management without a significant return. Over the next twelve months we will be rebuilding our risk management model across the organisation. Progress will be reported to the Audit Committee at each meeting. The first element of this is a cultural shift to responsiveness to risk issues as described in the previous two sections of the report.

Financial Reporting

There will be a focus on improving the timeliness and quality of financial reporting to senior management, Council and the broader community over the next twelve months. Our focus has been on meeting the minimum reporting criteria of LGV based on their templates. We will move towards a more nuanced approach where the nature of the reporting will meet the needs of the target audience.

RECOMMENDATION

That the Chief Executive Officer Update Report be received.

RESOLUTION

The Chief Executive Officer Update Report was received.

CARRIED

ATTACHMENTS

The Ararat Rural City Council migration to Office 365 Enterprise data was tabled at the 3 September 2019 meeting.

2.2 AUDIT COMMITTEE ANNUAL REPORT

BACKGROUND

The Audit Charter requires the Audit Committee report annually to its stakeholders, describing the Audit Committee's composition, the number of meetings held during the year and a summary of the activities the Audit Committee has undertaken during the previous financial year.

DISCUSSION

The Audit Committee is established to provide appropriate independent advice and recommendations relevant to its charter in order to facilitate decision making by the Council and Council's CEO in relation to the discharge of their respective responsibilities.

As part of Council's governance obligations to its community, Council has constituted the Audit Committee to facilitate:

1. Internal and external financial reporting;
2. Management of financial and non-financial risks and oversee the protection of Council assets;
3. Oversee the internal audit function; and
4. Provide an effective means of communication between the external auditor, internal audit, management and Council.

Membership

The membership of the Audit Committee during the reporting period was:

Name	Role	Attendance
Mr Homi Burjorjee	Independent Member & Chair	4 of 4 meetings
Mr Phil Delahunty	Independent Member	2 of 2 meetings
Mr Brian Keane	Independent Member	4 of 4 meetings
Mr Robert Tommasini	Independent Member	1 of 1 meeting
Cr. Peter Beales	Internal Member	3 of 4 meetings
Cr. Bill Braithwaite	Internal Member	4 of 4 meetings

Meetings

During 2018/19, the Audit Committee met on 4 occasions:

- 4 September 2018
- 27 November 2018
- 5 March 2019
- 4 June 2019

2018/19 In Review

The Audit Committee (the Committee) is pleased to report that Ararat Rural City has a strong Audit Committee in place that has continued to oversee the activities of Council's contracted Internal Auditor and External Auditor (appointed by the Auditor-General).

Mr. Phil Delahunty has been an independent member for the last six years and made significant contributions during his term. As the charter specifies a maximum period of six years Mr. Robert Tommasini has been appointed to replace Mr. Delahunty.

Audit activities for 2018/19 were guided by the Strategic Internal Audit Plan, which continues to examine key risk areas of Council's operations to ensure Council's stewardship of its community's assets is maintained at the highest level.

The Audit Charter was adopted by Council on 17 October 2017, with a review date of April 2020. At the meeting held 6 June 2018 a report was presented to the Committee on the role of the Audit & Risk Committee under the proposed new Local Government Act (the Act).

A review was scheduled for March 2019 but this has been delayed so the new revised Charter can be based on the requirements of the new Act.

The Committee has responded to the current Charter through consideration of various reports provided by management teams, the Internal Auditor and the External Auditor, and by monitoring the effectiveness of the Internal Audit program, as summarised by the following:

1. Effective internal and external financial reporting.

To achieve this outcome, the Audit Committee considered and commented on the following reports:

- 2017/18 Closing Report from the Auditor General for financial year ending 30 June 2018 (September 2018);
- Management letter for the financial year ended 30 June 2018 (September 2018);
- 2018/19 Internal Audit Status (each meeting);
- 2018/19 Audit strategy for the financial year ending 30 June 2019 (March 2019);
- 2018/19 Financial Reports for period ending 30 June 2018 (September 2018); 30 September 2018 (November 2018); 31 December 2018 (March 2019); and 31 March 2019 (June 2019).
- Financial Statements and Performance Statements for the year ended 30 June 2018 (September 2018).
- Interim management letter for the financial year ending 30 June 2018 (June 2019)

2. Effective management of financial and other risks and protection of Council assets.

To achieve this outcome, the Audit Committee considered and commented on the following reports:

- Status of Internal Audit Recommendations (each meeting)
- Gap Analysis – VAGO's Fraud and Corruption Control (November 2018)
- Internal Audit - Environmental Health Officer/Public Health (November 2018)
- Internal Audit - OHS Risk Management Audit (March 2019)
- Internal Audit - Local Laws (June 2019)
- Past Issues Report (November 2018, March 2019 and June 2019)
- Local Government 2017-18 Audit snapshot (June 2018)
- Commission of Inquiry Update (November 2018)
- Audit Review Outcomes update (each meeting).

3. The effectiveness of the internal audit function.

Council's current Internal Auditor is AFS & Associates (AFS), who have extensive experience in the Local Government sector as Internal Auditor at other municipalities.

AFS was reappointed on 28 October 2014, for a period of 3 years with an option for an additional term at year 3 and year 4 (3 years + 1 years + 1 year).

The Internal Audit program that the Committee has overseen is in place to assist both Council and Management to achieve sound control over all Council activities. Internal Audit is not involved in the day to day internal transaction checking, but provides an independent and objective assurance that the appropriate processes are in place.

Prior to accepting each report submitted by the Internal Auditor, the Internal Auditor provides a draft report seeking management's comments. A final report is then presented to the Audit Committee who examines the recommendations made in each report and management's comments thereon.

To enable the Committee to closely monitor the implementation of management's agreed actions to address the recommendations contained in the Internal Auditor's reports, a progress report from management is provided to each meeting.

4. The provision of an effective means of communication between the external auditor, internal audit, management and the Council.

Council's external auditor is the Victorian Auditor-General. The Auditor-General has elected to contract this activity for the financial year ended 30 June 2019 to Ms. Cassandra Gravenall of Crowe Australasia, an affiliate of Findex (Aust) Pty Ltd.

The external auditors are responsible for providing a recommendation to the Auditor-General that the Annual Financial Statements of Council present fairly and in accordance with applicable Accounting Standards

Ms. Gravenall presented the closing report for the financial year ended 30 June 2018 at the September 2018 Committee meeting.

Ms. Gravenall attended the Committee meeting on 7 March 2019 to discuss any issues raised by the Audit Committee when the audit strategy for 2018/19 was presented at that meeting.

Ms. Gravenall was available for a telephone conference on 4 June 2019 to discuss the interim management letter for the financial year ended 30 June 2019. It is normal practice for the External Auditor to review the Internal Audit program to better understand the internal control framework that exists at Council.

It is considered the above activities clearly demonstrate to Council that the Audit Committee has discharged its responsibilities as set out in the Audit Committee Charter.

ACCOUNTABILITY

In addition to this annual report, the Audit Committee's minutes are presented to Councillors in the Council agenda after each Audit Committee meeting as an information report. If the Audit Committee pass any resolutions that require a Council decision, then a separate report is prepared and is presented to Council for consideration.

RECOMMENDATION

That the Audit Committee Annual Report be received.

MOVED - CR BILL BRAITHWAITE
SECONDED - MR BRIAN KEANE

That the Audit Committee Annual Report be received.

CARRIED

ATTACHMENTS

There are no attachments relating to this item.

SECTION 3 – MATTERS ARISING FROM PREVIOUS MINUTES – 4 JUNE 2019

3.1 ARARAT RURAL CITY COUNCIL RISK MANAGEMENT FRAMEWORK

BACKGROUND

Council's Risk Management Documents (Policy and Framework) are currently being reviewed.

The review of these documents will take into account recommendations from AFS (Internal auditor's) reports, VAGO reports and the JMAPP Risk Maturity Appraisal (July 2019). A copy of the draft Risk Management Policy is provided for information.

DISCUSSION

Along with the review of the Risk Management documents, a new Risk Management System (RelianSys) is being utilised to capture Council's Strategic and Organisational Risks. Council officers are in the process of uploading the risk data onto the new system. A further update will be presented to the Audit Committee once this process is complete.

RECOMMENDATION

That the Ararat Rural City Council Risk Management Framework report be received.

MOVED – CR BILL BRAITHWAITE
SECONDED - MR ROBERT TOMMASINI

That the Ararat Rural City Council Risk Management Framework report be received.

CARRIED

ATTACHMENTS

The draft Risk Management Policy was provided as an attachment and included in the 3 September 2019 agenda.

3.2 ARARAT RURAL CITY COUNCIL INSURANCE POLICY UPDATE – CONFIDENTIAL

BACKGROUND

At the Audit Committee meeting held on 4 June 2019, the Committee discussed the current insurance policies held by Ararat Rural City Council and requested further information be provided.

A confidential attachment outlining Council's insurance policies including coverage, excesses and premiums paid in the 2017/2018, 2018/2019 and 2019/2020 financial years is provided.

DISCUSSION

At the June 2019 meeting, the Audit Committee suggested that Council consider obtaining Cyber Crime Insurance coverage. As a result, Council has now obtained the appropriate Cyber Liability Insurance and details are included in the information mentioned above.

RECOMMENDATION

That the Confidential Ararat Rural City Council Insurance Policy Update report be received.

RESOLUTION

The Confidential Ararat Rural City Council Insurance Policy Update report was received.

CARRIED

ATTACHMENTS

The confidential Insurance suite of policies was provided as a hard copy attachment at the 3 September 2019 meeting.

SECTION 4 – REPORTS REQUIRING AUDIT COMMITTEE DECISION

4.1 FINANCIAL STATEMENTS AND PERFORMANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

BACKGROUND

Part of the Audit Charter requires that the Audit Committee review the draft Annual Financial Report and the draft Annual Performance Statement.

DISCUSSION

Council's external auditors were onsite the week commencing Monday 19 August 2019 to conduct the end of year audit. Draft Financial Statements and draft Performance Statement compiled by Council officers have been sent to the auditors for review.

Financial Report

The Comprehensive Income Statement shows total income in 2019 of \$34.184 million compared with \$32.292 million in 2018. Rates & Charges income increased by \$0.396 million, Government Grants for operations increased by \$2.485 million, and Government Grants for capital works decreased by \$1.191 million.

Council received Natural Disaster Relief funding of \$1.417 million to offset the expenditure incurred as a result of storm damage in September 2016. There was also \$0.509 million more in the Federal Government's Financial Assistance Grant mainly due the timing of payments in 2018 and 2019.

Government Grants for capital works in 2019 were less than 2018 mainly due to the timing of payments of the Roads to Recovery Grant (\$1.063 million)

User fees in 2019 were \$0.209 million less than 2018, mainly due to the \$0.286 reduction in income for waste management fees. Council no longer invoices Northern Grampians Shire Council for waste disposal fees which resulted in less income and less expenditure in 2019.

Total expenses in 2019 were \$30.185 million compared with \$29.214 million in 2018, an increase of \$0.971 million. A breakdown of expenses reveals an increase in employee benefits of \$0.490 million and an increase of \$1.798 million in depreciation.

Whilst employee benefits were \$0.490 million more in 2019 they were \$0.448 million less than budget due organization restructuring as well as delays in replacing some staff members and other vacancies that have not been filled.

The decrease in materials and services was expected as 2018 included flood recovery works of \$0.309 million that were completed during the year. Governance costs associated with the Commission of Inquiry and the cost of implementing the recommendations made by the Minister for Local Government of \$0.178 million were also included in 2018. The actual materials & services figure for 2019 of \$8.967 million is in line with the budget of \$8.967 million.

The additional \$1.798 million in depreciation is a direct result of the revaluation of infrastructure assets at 30 June 2018, resulting in a net asset revaluation increment of \$48.995 million.

In 2019, there was a net gain on disposal of asset. In 2018 there was a loss on disposal of property, infrastructure, plant and equipment of \$0.556 million, partly due to the Ararat Eagles Clubrooms being gifted to East Grampians Health Service and two buildings being demolished as part of the Ararat Arts Precinct Project.

The surplus for 2019 was therefore \$3.999 million compared with a surplus of \$3.078 million in 2018.

The Cash Flow Statement shows a net increase in cash and cash equivalents of \$3.621 million. Part of this increase is due to receiving the reimbursement of \$1.417 million expenditure incurred as a result of storm damage in September 2016. Council also borrowed \$1 million to complete the Ararat Town Hall Redevelopment in 2019. The loan was originally in the budget for 2018 but was not required as Council received an advanced payment of \$2.88 million from the Victorian Grants Commission in June 2018.

The Cash Flow Statement shows net cash provided by operating activities was \$13.963 million in 2019 compared with \$10.127 million in 2018, representing an increase of \$3.836 million. This is largely due to \$2.247 million reduction in materials and services. The 2018 figures include Flood Recovery works of \$0.309 million that were not in the budget, Grading and re-sheeting roads exceeded budget by \$0.267 million and pothole patching exceeding budget by \$0.114 million. Governance costs relating the Commission of inquiry were \$0.178 million.

In 2019, there was \$0.321 million less in expenditure as Council did not incur waste management fees on behalf of Northern Grampians Shire Council. Savings in road maintenance budget (operating budgets) were also redirected to additional renewal works to help reduce the renewal gap – additional re-sheeting \$0.495 million and extra reseals \$0.146 million.

Net cash used in investing activities (e.g. payments for property, infrastructure, plant and equipment) was \$11.209 million in 2019 compared with \$12.339 million in 2018. Capital works for 2019 included \$6.808 million for infrastructure, \$1.8 million for Plant & Equipment, \$1.726 million to complete the Ararat Town Hall redevelopment, \$0.315 for the Willaura Hall, \$0.317 million for the Ararat Skate Park and \$0.104 million for the Olver Grandstand renovations.

Net cash provided in financing activities was \$0.867 million in 2019 which included the new loan of \$1 million to complete the Ararat Town Hall redevelopment.

Performance Statement

The Victorian Government has introduced a mandatory system of performance reporting which prescribes performance information to be included on Council's annual reports.

"Councils must describe the prescribed indicators and measures in the performance statement so it is clear to the audience what is being measured. In addition, the performance statement must include the results achieved in relation to the prescribed service performance outcome, financial performance and sustainable capacity for the financial year and three preceding years.

For the financial performance indicators and measures, the performance statement must also include the forecast results for four years based on the financial statements included in the strategic resource plan.

Reporting trend information helps the reader understand changes in Council performance over time and acts as a point of reference for results. The regulations require that Councils must also provide an explanation of any material variations in the results between the current year and other years disclosed, to enable the reader to form an understanding of the reason for the variation".

The performance reporting framework requires Councils to load the indicators included in this performance statement, as well as a number of other indicators that are required to be included in the report of operations, onto the "Know your Council" website, which will allow the community to compare the performance result of Councils across Victoria.

Part of the performance reporting framework includes the State Government setting expected ranges for each indicator. Based on the draft financial statement and performance statement Council is within the expected range for most indicators. The reasons for the material variations are included in the performance statement.

RECOMMENDATION

The Audit Committee recommends:

1. Council authorises Cr Peter Beales, Cr Bill Braithwaite (Audit Committee Members) and Council's Chief Executive Officer to certify the Financial Statements in their final form; and
2. Council authorises Cr Peter Beales, Cr Bill Braithwaite and Council's Chief Executive Officer to certify the Performance Statement in its final form.

MOVED – MR BRIAN KEANE

SECONDED – CR BILL BRAITHWAITE

The Audit Committee recommends that:

1. **Council authorises Cr Peter Beales, Cr Bill Braithwaite (Audit Committee Members) and Council's Chief Executive Officer** to certify the Financial Statements in their final form; and
2. **Council authorises Cr Peter Beales, Cr Bill Braithwaite and Council's Chief Executive Officer** to certify the Performance Statement in its final form, subject to:
 - No material changes to the Financial Statements and Performance Statement; and
 - Receipt of the final Management letter, Final closing report and Representation letter.

CARRIED

ATTACHMENTS

The Financial Statements and Performance Statements were provided as an attachment and included in the 3 September 2019 agenda.

4.2 INTERNAL AUDIT – HUMAN RESOURCES RISK MANAGEMENT

BACKGROUND

AFS & Associates are Council's Internal Auditors and recently audited Human Resources Risk Management.

DISCUSSION

The objective of the audit was to:

1. Confirm knowledge of, and adherence to, key policies and procedures related to Human Resource (HR) risks;
2. Confirm consistency of recruitment, remuneration and termination decisions in practice;
3. Confirm appropriate management of employee complaints (discrimination, harassment, safety, other);
4. Analyse application of performance management processes and outcomes; and
5. Confirm adequate processes for treatment of whistle-blowers (protected disclosures).

The audit concluded there were 5 areas of strength. 6 areas rated as moderate risks and 5 areas rated as minor risks. The definition of a moderate risk is medium likelihood and/or consequence – requires attention over time. The definition of a minor risk is low likelihood and/or consequence – attention at management discretion.

A number of the recommendations were reviewed by Management and not accepted. The recommendations below exclude those recommendations.

RECOMMENDATION

The Audit Committee recommends management:

1. *Ensure all employees receive a performance review at least annually;*
2. *Ensure license, certificate and qualification renewal dates are maintained and management monitor this spreadsheet to ensure employees are current in relevant license, certificates and qualifications;*
3. *Complete Exiting Council Checklists for all departing employees;*
4. *Distribute keys to filing cabinets containing employee files to relevant personnel rather than have the keys in a centrally accessible location;*
5. *Ensure service risks have all relevant sections completed including current controls, likelihood of risk (residual risk) and controls yet to be implemented;*
6. *Review, approve and implement the draft Workforce Management Plan 2019-21 (WMP) in a timely manner; communicate the WMP and review the WMP annually;*
7. *Consider the cost vs benefit of two annual performance reviews with the view of reducing to one; and*
8. *Circulate completed exit interviews to relevant management.*

MOVED MR ROBERT TOMMASINI
SECONDED MR BRIAN KEANE

The Audit Committee recommends management:

1. Ensure all employees receive a performance review at least annually;
2. Ensure license, certificate and qualification renewal dates are maintained and management monitor this spreadsheet to ensure employees are current in relevant license, certificates and qualifications;
3. Complete Exiting Council Checklists for all departing employees;
4. Distribute keys to filing cabinets containing employee files to relevant personnel rather than have the keys in a centrally accessible location;
5. Ensure service risks have all relevant sections completed including current controls, likelihood of risk (residual risk) and controls yet to be implemented;
6. Review, approve and implement the draft Workforce Management Plan 2019-21 (WMP) in a timely manner; communicate the WMP and review the WMP annually;
7. Consider the cost vs benefit of two annual performance reviews with the view of reducing to one;
8. Circulate completed exit interviews to relevant management; and
9. Note that the following recommendations were not accepted by management:
 - Critical roles are identified and succession plans are implemented;
 - The Recruitment and Selection Procedures is complied with;
 - Each set of interview questions contain questions which could reasonably be expected to gauge **some understanding of the applicants' resilience, cultural fit, values and future leadership potential**; and
 - All employees receive the required induction.

CARRIED

ATTACHMENTS

The Human Resources Risk Management Audit was provided as an attachment and included in the 3 September 2019 agenda.

SECTION 5 – INFORMATION REPORTS

5.1 EXTERNAL REPORTING - FINANCIAL REPORT FOR PERIOD ENDED 30 JUNE 2019

BACKGROUND

The Audit Charter requires the Audit Committee to review the financial report presented to Council.

DISCUSSION

The financial report which was presented to Council at the meeting held 20 August 2019 was for the period ended 30 June 2019.

RECOMMENDATION

That the Financial Report for the period ended 30 June 2019 be received.

MOVED – MR BRIAN KEANE

SECONDED – MR ROBERT TOMMASINI

That the Financial Report for the period ended 30 June 2019 be received.

CARRIED

ATTACHMENTS

The Financial Report for period ended 30 June 2019 was provided as an attachment and included in the 3 September 2019 agenda.

5.2 EXTERNAL AUDIT – MANAGEMENT LETTER FOR YEAR ENDED 30 JUNE 2019

BACKGROUND

Ms Cassandra Gravenall of Crowe Australasia has been appointed by the Victoria Auditor-General's office to undertake the annual financial audit for the year ending 30 June 2019.

DISCUSSION

Crowe Australasia was on site to conduct the interim audit in early May, 2019. They returned the week commencing 19 August to complete the end of year audit.

At the time of writing this agenda Crowe Australasia was still completing the audit. It is expected the final Management letter will be available and presented at the meeting on 3 September 2019.

RECOMMENDATION

That the Management Letter for the financial year ended 30 June 2019 be received.

The Management Letter for the financial year ended 30 June 2019 will be distributed to Committee members out of session.

ATTACHMENTS

There are no attachments relating to this item. The Management Letter was not available at the time of the meeting. The Management letter will be distributed to Audit Committee members out of session. It was noted that no changes to the Interim Management Letter were expected.

5.3 EXTERNAL AUDIT – CLOSING REPORT FOR YEAR ENDED 30 JUNE 2019

BACKGROUND

The Closing Report for the year ended 30 June 2019 has is being finalised by Crowe Australasia.

DISCUSSION

The purpose of the Closing Report is to summarise the results of the audit and communicate any significant audit findings to those in charge of governance

The Closing Report will be distributed as soon as it becomes available. It is expected the Closing Report will be presented at the meeting on 3 September 2019.

RECOMMENDATION

That the Closing Report for the financial year ended 30 June 2019 be received.

RESOLUTION

The Closing Report for the financial year ended 30 June 2019 was received.

CARRIED

ATTACHMENTS

There are no attachments relating to this item.

5.4 INTERNAL AUDIT – AUDIT REVIEW OUTCOMES

BACKGROUND

Council appointed AFS & Associates from Bendigo as Council's Internal Auditors. Council has since adopted a number of recommendations made by the Internal Auditor in relation to internal audit reviews.

DISCUSSION

Action plans have been developed as a result of various internal and external audits, including audits by the Victorian Auditor-General.

RECOMMENDATION

That the Audit Reviews Outcomes report be received.

MOVED - CR BILL BRAITHWAITE

SECONDED - MR BRIAN KEANE

That the Audit Reviews Outcomes report be received.

CARRIED

ATTACHMENTS

The Internal Audit Review Outcomes were provided as an attachment and included in the 3 September 2019 agenda.

5.5 INTERNAL AUDIT – INTERNAL AUDIT PROGRAM STATUS

BACKGROUND

AFS & Associates are Council's Internal Auditors.

DISCUSSION

AFS & Associates recently provided the current status of Internal Audits.

RECOMMENDATION

That the Internal Audit Program Status Update report be received.

MOVED - MR ROBERT TOMMASINI
SECONDED - CR BILL BRAITHWAITE

That the Internal Audit Program Status Update report be received.

CARRIED

ATTACHMENTS

The Internal Audit program status was provided as an attachment and included in the 3 September 2019 agenda.

5.6 INTERNAL AUDIT – QUARTERLY INDUSTRY UPDATE

BACKGROUND

AFS & Associates are Council's Internal Auditors.

DISCUSSION

AFS & Associates have provided their quarterly industry update for Councils recently provided the current status of Internal Audits.

RECOMMENDATION

That the Internal Audit - Quarterly Industry Update report be received.

MOVED - MR ROBERT TOMMASINI
SECONDED - CR PETER BEALES

That the Internal Audit - Quarterly Industry Update report be received.

CARRIED

ATTACHMENTS

The Internal Audit quarterly industry update was provided as an attachment and included in the 3 September 2019 agenda.

5.7 INTERNAL AUDIT – PAST ISSUES REPORT

BACKGROUND

AFS & Associates are Council's Internal Auditors.

DISCUSSION

AFS & Associates have provided their past issues report. There are no outstanding issues from previous audits.

RECOMMENDATION

That the Past Issues report be received.

MOVED - CR PETER BEALES

SECONDED - MR ROBERT TOMMASINI

That the Past Issues report be received.

CARRIED

ATTACHMENTS

The Internal Audit past issues report was provided as an attachment and included in the 3 September 2019 agenda.

5.8 VAGO REPORT – FRAUD AND CORRUPTION CONTROL

BACKGROUND

The Victorian Auditor-General's Office (VAGO) conduct audits on Local Government on various topics throughout the year.

DISCUSSION

VAGO has recently issued a report - Fraud and Corruption Control – Local Government following the audit of four Councils – Greater Shepparton City Council, Strathbogie Shire Council, Wellington Shore Council and Wyndham City Council.

Audit concluded "There are gaps in the fraud and corruption controls at the audited councils and in some cases important controls are not working. The failure of these controls can foster a culture in which fraud and corruption can occur and go undetected and result in financial loss or reputational damage to the councils".

Audit recommended "All councils should consider our findings to determine if our recommendations are applicable to their operations and perform their own self-assessment of their fraud and corruption controls".

There were ten detailed recommendations included in the report for all councils:

1. Require Councillors to certify that their expense claims are incurred in the context of relevant legislative provisions.
Councils must require Councillors to provide stronger evidence to support their claims, in particular for mileage reimbursements, including records pertaining to the claim and details of the business reason and who benefited from the expense.
2. Review and update fuel card policy and guidance to clearly outline fraud and corruption controls, and require staff to confirm that they understand the terms of use and consequences for misuse.
3. Review credit card policies and improve controls to ensure only allocated cardholders use their cards and there is appropriate segregation of duties over expenditure approvals.
4. Ensure the Councils Chief Financial Officer or equivalent approves CEO expenditure and report all expenditure by, or on behalf of the CEO to the Audit and Risk Committee and/or the Council for periodic review.
5. Document and develop formalised reporting over credit and fuel card use and incorporate, where appropriate, data analytics to identify anomalies.
6. Improve fuel card controls by:
 - Assigning each fuel card to a specific vehicle or equipment;
 - Maintaining accurate motor vehicle and fuel card listings;
 - Updating cardholder names with fuel suppliers when the Council reassigns a vehicle and fuel card to another employee;
 - Collecting fuel transaction data as accurately as possible, including odometer readings;
 - Having regular, routine processes to monitor fuel card use;
 - Conducting data analytics over fuel card transactions; and
 - Conducting periodic internal audits on fuel cards.

7. Review and as necessary revise Council policies on the purchase and reimbursement of meals and alcohol considering community perceptions and require for transaction approval, clear evidence of the community benefit from this expenditure and appropriate supporting documentation.
8. Ensure that annual reports accurately capture expenses relating to senior management remuneration packages including vehicle contribution amounts.
9. Ensure all Council staff and Councillors receive fraud and corruption awareness training at least every two years.
10. Develop or maintain fraud and corruption incident registers to accurately record suspected incidents of fraud and corruption, their handling and all relevant supporting documentation.

Council wrote to the Minister for Local Government, Hon Adem Somyurek on 16 August 2019 advising that Council has now implemented an action plan to address the audits recommendations in line with delivering the required council services.

A full copy of the audit report is available at <https://www.audit.vic.gov.au/report/fraud-and-corruption-control-local-government>

Management have developed an action plan to address the recommendations made.

RECOMMENDATION

That the VAGO – Fraud and Corruption Control report be received.

MOVED - MR ROBERT TOMMASINI
SECONDED - CR PETER BEALES

That:

1. The VAGO – Fraud and Corruption Control report be received; and
2. **The Chief Executive Officer's Credit Card expenses are to be** monitored by the Audit Committee.

CARRIED

ATTACHMENTS

The VAGO report – Fraud and Corruption Control was provided as an attachment and included in the 3 September 2019 agenda.

5.9 VAGO REPORT – ASSET MANAGEMENT AND COMPLIANCE

BACKGROUND

The Victorian Auditor-General's Office (VAGO) conduct audits on Local Government on various topics throughout the year.

DISCUSSION

VAGO has recently issued a report – Asset management and Compliance following the audit of five councils – Colac Otway Shire Council, Darebin city Council, Hindmarsh Shire Council, Mildura Rural City Council and Nillimbuk Shire Council.

Audit concluded "The audited councils do not have enough comprehensive and accurate information to support asset planning, and they do not make enough use of the information that they have. Although they maintain basic data about their assets—such as location and description—councils do not always supplement this with asset maintenance and failure data. This reduces their ability to identify poor performing assets and to justify new asset investments.

Councils use some asset information to support asset planning and decision making, however, this is not consistent across all asset classes and councils. For example, all audited councils have and use better information about their roads than other asset classes, largely due to their obligations under the Road Management Act 2004 (RM Act).

Complex and unintegrated asset information management systems (AIMS) compound the information gaps, which make it difficult for staff to find the asset information they need to support decision-making. This means asset decisions depend heavily on the experience and judgement of individual staff without the benefit of objective data".

Audit recommend that all Victorian Councils:

1. Revise their governance and policy guidance for asset investment decision-making to ensure that it is evidence-based.
2. Clearly determine and document the information that they need for effective asset reporting and decision-making, including ensuring Disaster Recovery Funding Arrangements needs are met.
3. Establish more consistent and systematic processes for data collection on all asset classes to a level commensurate to the criticality of the asset and implement them to collect the information.
4. Integrate asset management information systems so staff can easily record and access data to enable analysis for planning and decision-making.
5. Identify their critical assets, and the potential risks of their failure, to inform investment priorities.
6. Integrate asset management planning into financial planning cycles and processes to ensure Councils balance asset investment needs against their objectives and funding constraints.
7. Evaluate their capability, including resources, skills and training to meet their identified asset management needs, potentially using the National Asset Management Assessment Framework.

A full copy of the audit report is available at <https://www.audit.vic.gov.au/report/local-government-assets-asset-management-and-compliance>

Management have developed an action plan to address the recommendations made.

RECOMMENDATION

That the VAGO – Asset Management and Compliance report be received.

The VAGO – Asset Management and Compliance report was considered.

ATTACHMENTS

The VAGO Report – Asset Management and Compliance was provided as an attachment, uploaded to Base Camp as the attachment provided to the 3 September 2019 meeting was incorrect.

5.10 VAGO REPORT – LOCAL GOVERNMENT PERFORMANCE

BACKGROUND

The Victorian Auditor-General's Office (VAGO) conduct audits on Local Government on various topics throughout the year.

DISCUSSION

VAGO has recently issued a report – Reporting on Local Government Performance following the audit of five councils – Mooney Valley City Council, City of Casey, Horsham Rural City Council, Baw Baw Shire Council and the Borough of Queenscliff.

Audit concluded "Audited councils do not sufficiently use the LGPRF, or other internally generated data, to understand their performance and communicate it to their community or inform their decisions. They need to shift their perception of performance reporting from a compliance exercise, to embracing it as a principal mechanism through which they will drive service improvement.

Being the first framework of its kind in Australia, LGV's implementation of the LGPRF is a commendable first step to publicly report data on the performance of some key council services. With four years of reporting completed by councils, the LGPRF is beginning to build a picture of council and sector performance over time.

However, the LGPRF is not yet realising its full potential because it lacks good outcome measures, data is reported inconsistently between councils, and some of the reported data is unreliable.

Councils can do more to lift the quality and use of data to improve their outcomes. LGV can also do more to support improvements by showing councils how they can use the LGPRF as an improvement tool, for example by providing more benchmarked data reports.

The LGPRF also has not achieved the aim of reducing the reporting burden on councils. Various state government agencies continue to use their own, separate processes to collect council data. This duplicates effort, for both councils and the state government, and leads to inefficiencies and inconsistencies'.

Audit recommend that all Victorian Councils:

1. Councils develop, monitor and report on performance indicators specific to their own services and community needs.
2. Ensure strategic indicators in their annual reports, communicate the outcomes of services for the community.
3. Regularly report performance information to Council decision-makers.
4. Develop and report against targets for all performance indicators.
5. Improve the accuracy of Local Government Performance Reporting Framework data by implementing effective quality assurance processes.
6. Promote Local Government Performance Reporting Framework results on the Know Your Council website through various methods, including their own council websites.

A full copy of the audit report is available at <https://www.audit.vic.gov.au/report/reporting-local-government-performance>

Management have developed an action plan to address the recommendations made.

RECOMMENDATION

That the VAGO – Local Government Performance report be received.

MOVED - MR BRIAN KEANE
SECONDED - MR ROBERT TOMMASINI

That the VAGO – Local Government Performance report be received.

CARRIED

ATTACHMENTS

The VAGO Report – Local Government Performance Report was provided as an attachment and included in the 3 September 2019 agenda.

5.11 VAGO REPORT – LOCAL GOVERNMENT INSURANCE RISKS

BACKGROUND

The Victorian Auditor-General's Office (VAGO) conduct audits on Local Government on various topics throughout the year.

DISCUSSION

VAGO issues a report in July 2018 – local Government Insurance Risks following the audit of seven councils – City of Ballarat, Benalla City Council, Glen Eira City Council, Kingston City Council, Pyrenees Shire Council, City of Stonnington and Yarra City Council.

Audit concluded *"Councils are not always giving the purchase of their insurance the thorough consideration it deserves. At best, this means they may be paying more than they need to and, at worst, if there are gaps in their coverage it may significantly impact their operations should an undesirable event occur"*.

Audit recommend that all Victorian Councils:

1. Regularly review and update their risk register to ensure they:
 - effectively assign all risks to relevant business units
 - document and date risk control implementation plans
 - monitor the implementation and effectiveness of risk controls
2. Review their insurable risk profiles and insurance products, identify insurance gaps and evaluate loss limits to ensure they understand their insurable risks and hold sufficient insurance;
3. Undertake a cost benefit analysis to evaluate whether tendering for insurance, in line with procurement better practice would provide better outcomes;
4. In consultation with the Municipal Association of Victoria obtain an understanding of Liability Mutual Insurance's ability to call on its members for funds and assess the impact on their respective Council; and
5. Review, evaluate and retain the exact policy details which provide the level of cover, especially where they are participating in a mutual property scheme.

A full copy of the audit report is available at <https://www.audit.vic.gov.au/report/local-government-insurance-risks>

Management have developed an action plan to address the recommendations made.

RECOMMENDATION

That the VAGO – Local Government Insurance Risks report be received.

MOVED MR BRIAN KEANE
SECONDED MR ROBERT TOMMASINI

That the VAGO – Local Government Insurance Risks report be received.

CARRIED

ATTACHMENTS

The VAGO report – Local Government Insurance Risks were provided as an attachment and included in the 3 September 2019 agenda.

5.12 AUDIT COMMITTEE ANNUAL WORK PLAN

BACKGROUND

The Audit Charter requires the Audit Committee to prepare an annual work plan.

DISCUSSION

Ref. No.	Meeting Scheduled for 1st Tuesday every 3 months	Sept	Dec	Mar	Jun	As reqd.
5.1	External Reporting					
5.1.1	Review Council's draft annual financial report and draft performance statement prior to their approval by Council	X				
5.1.2	Review the quarterly financial reports as presented to Council	X	X	X	X	
5.2	External Audit					
5.2.1	Discuss and review the proposed audit strategy presented by the external auditor at the commencement of the audit.				X	
5.2.2	Discuss and review issues arising from the audit, including all management letters and closing report issued by the auditor.	X		X		
5.2.3	Ensure significant findings and recommendations made by the external auditor and management's proposed responses are received and appropriately acted upon.					X
5.2.4	Provide an opportunity for the audit committee to meet with the external auditor without management					X
5.3	Internal Audit					
5.3.1	Make recommendations to the Council on the appointment of the internal auditor.					X
5.3.2	Review and recommend to Council a strategic annual internal audit plan having regard to Council's Budget and material business risks.					X
5.3.3	Consider internal audit reviews and recommend to Council actions that result in improved performance in these areas.					X
5.3.4	Monitor the implementation of recommendations made by internal audit by receiving audit review updates each meeting.	X	X	X	X	
5.3.5	Review on an annual basis the performance of the internal auditor	X				
5.4	Internal Control and Risk Management					
5.4.1	Understand the scope of internal and external auditor's review of internal controls over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses.					X

Ref. No.	Meeting Scheduled for 1st Tuesday every 3 months	Sept	Dec	Mar	Jun	As reqd.
5.4.2	Consider with the auditors any acts of fraud, any illegal undertakings and any deficiencies or breaches of security.					X
5.5	Risk Management					
5.5.1	Monitor Council's risk management system.					X
5.5.2	Work with management to ensure material strategic business risks are adequately managed by inviting management/service delivery owners twice a year to present strategic risks applicable to their area of council.		X		X	
5.5.3	Review Council's risk and fraud policies every three years.					X
5.6	Compliance					
5.6.1	Consider the findings and recommendations of any examinations undertaken by the by external agencies					X
5.6.2	Obtain regular updates from management about compliance matters that have a material impact on the financial statements, strategies, operations and reputation.					X
5.6.3	Consider recent developments and updates in the various Acts that have an impact on compliance matters that may affect Council.					X
5.6.4	Review and provide advice in relation to relevant Council policies and procedures.					X
5.7	Fraud					
5.7.1	Ensure a policy and procedure is in place to deal with fraud.					X
5.8	Reporting					
5.8.1	Report regularly to council via minutes	X	X	X	X	
5.8.2	Report annually to stakeholders	X				
5.8.3	Annually review reporting against Local Government Performance Reporting Framework results.	X				
5.9	General					
5.9.1	Perform other activities related to this charter as requested by the Council					X
5.9.2	Review and assess the adequacy of the Audit Committee Charter every three years and recommend any changes to Council for approval					X
5.9.3	Evaluate the Audit Committee's performance annually and include evaluation in the annual report to Council.	X				
5.9.4	The Committee shall establish an annual work plan that ensures proper coverage of matters laid out in the Audit Committee Charter.				X	

RECOMMENDATION

That the Annual Work Plan be adopted, recognising timelines are indicative and subject to change.

The Annual Work Plan was considered.

ATTACHMENTS

There are no attachments relating to this item.

5.13 FUTURE AUDIT COMMITTEE ITEMS

BACKGROUND

The Audit Charter contains a sample audit committee agenda that includes some of the issues the Audit Committee can consider at quarterly meetings.

DISCUSSION

The Audit Committee agree at each meeting the committee should consider what items should be included in the agenda for the next meeting.

Potential items for discussion at the next Audit Committee meeting could include:

- External reporting
Review financial report for quarter ended 30 September 2019, including the Capital Works update.
- Internal Audit
Internal audit reports received since the last meeting.
- Risk Management
Any relevant reports on Risk Management.
- General
Any relevant reports issued by regulatory agencies such as IBAC (Independent Broad-Based Anti-Corruption Commission), Ombudsman and VAGO

RECOMMENDATION

That the Audit Committee determines items for consideration at the meeting scheduled for 26 November 2019.

The Audit Committee had no further items for consideration for the meeting scheduled on 26 November 2019.

ATTACHMENTS

There are no attachments relating to this item.

SECTION 6 – FUTURE MEETINGS

6.1 FUTURE MEETING DATES

Future meetings of the Audit Committee are scheduled as follows:

- Tuesday 26 November 2019 at 1pm
- Tuesday 3 March 2020 at 1pm
- Tuesday 2 June 2020 at 1pm

Meeting closed at 2.47pm

Audit Committee members met with Councillors, the external auditor and the internal auditor, without management present, from 2.47pm to 3.09pm to discuss any relevant confidential matters.