



Audit and Risk Committee  
Annual Report  
2014 - 2015

# Audit and Risk Committee Annual Report 2014 - 2015

---

## Introduction

It is with pleasure that I submit the 2014 – 2015 Audit and Risk Committee Annual Report for the consideration of Council.

The key purpose of this report is to achieve the following:

- Reaffirming to Council the purpose, role and objectives of the Audit and Risk Committee
- Acting as a communication link between the internal auditors, external auditors and Council
- Outlining the outcomes achieved by the Audit and Risk Committee
- Providing Council with information on future activities of the Audit and Risk Committee.

It is an opportune time for the Audit and Risk Committee to reflect on the outcomes of the Audit and Risk Committee during the previous financial year, as well as look forward to the year ahead.

The Audit and Risk Committee is delegated by Council with the responsibility to promote and monitor an ethical culture throughout the Council, monitor the implementation of a sound system of risk oversight and management, ensure Council maintains a reliable system of internal control, monitor and review internal and external reporting. The Audit and Risk Committee plays a key role in effectively communicating between Council and the internal and external auditors to assist Council to fulfil its governance and oversight responsibilities in relation to these functions.

On 27 January 2015 Council endorsed the appointment of John Gavens and Debra Russell as the new independent representatives to the Committee to replace Peter Dryden and Claire Higgins (Chair), whose terms expired on 31 March 2015. Council also endorsed the appointment of Brian Keane as the new Chair. At its meeting held on the 24 March 2015, Council endorsed the appointment of Cr Margot Smith as a committee member following the resignation of Cr Rod Nockles.

The Victorian Auditor-General's Office (VAGO) delivered the external audit during the 2014-15 financial year, while Grant Thornton continued its delivery of the internal audit program. The emphasis of the internal audit for the 2014 - 2015 year was on:

- Capital Planning and Budgeting
- Information Technology General Controls
- Payroll

The internal audit program for the coming year will include four audits to be based on a draft Strategic Annual Internal Audit Plan prepared by Grant Thornton in conjunction with management and the Committee.

A number of improvements were endorsed by the Audit and Risk Committee to be applied to current systems during the year, reflecting opportunities to maximise performance benefits and minimise risks. Management endorsed the implementation of the following key improvements:

- Adoption of the Fraud and Corruption Control Plan (FCCP);
- Implementation of the Audit and Risk Committee Induction Manual for newly appointed Committee members;
- Inclusion of commentary to facilitate actions/work carried out for serious risks identified from the previous Audit and Risk Committee meeting;
- Working towards identification of Council's top ten strategic risks and the adoption of a strategic approach to monitoring and reporting of these risks;
- Presentations to the Committee on Council's serious risks;
- Provision of suggestions and feedback for improvement of Council's Risk Management Policy;
- Review of the scope of Internal Audits by the Committee prior to commencement;
- Development of two separate surveys to be completed for the evaluation of the Internal Audit function – one by Committee members and the other by Council management;
- Provision of suggestions and feedback for improvement on Council's Investment Policy;
- Review of Audit and Risk Committee Charter.

## Audit and Risk Committee Annual Report 2014 - 2015

---

The Victorian Auditor-General's Office (VAGO) delivered an unqualified audit opinion on the Financial, Standard and Performance Statements for year ended 2013 – 2014. The 2014 – 2015 audit opinion will be finalised in late September 2015, with preliminary feedback indicating that there no issues to report.

The Committee has completed a significant review of its membership, role and work plan during the year and has successfully added value to management's internal and external reporting processes and internal controls. The new membership is enthusiastic about the opportunity to work alongside the external auditor and internal auditor to continue to improve the reporting, internal control, risk management, ethical accountability and overall audit functions of Council.

I commend the Annual Report to Council.

**Brian Keane**

Chair Audit and Risk Committee

# Audit and Risk Committee Annual Report 2014 - 2015

---

## Background to the Audit and Risk Committee

The Audit and Risk Committee is an independent Advisory Committee of Council whose primary purpose is to assist Council in the effective conduct of its responsibilities to foster an ethical culture throughout the Council, manage risk, demonstrate quality internal and external reporting and maintain a reliable system of internal controls.

All recommendations of the Committee are forwarded to Council for consideration.

In terms of the role of the Audit and Risk Committee, the following extracts from the latest guidelines *“Audit Committees – A Guide to Good Practice for Local Government”* issued by the Department of Planning and Community Development in January 2011, provide a valuable summary.

*“An independent audit committee is a fundamental component of a good corporate governance structure. In the context of local government, the audit committee is an advisory committee that typically:*

- (i) focuses on issues relevant to the integrity of the LGE’s (local government entity’s) financial reporting*
- (ii) monitors risk management systems, internal control framework, compliance and internal audit activities*
- (iii) liaises between external auditors, internal auditors and management.*

*Historically, the role of the audit committee focused on the financial report, accounting, internal control matters, and on the integrity of accounting systems. Audit committees are now commonly given a broader mandate that covers a wide range of activities. This includes risk management (including fraud prevention strategies), financial and non-financial performance, compliance requirements and other audit and assurance activities not directly related to the financial report.”*

The specific objective of the Audit and Risk Committee is outlined in the Committee’s Charter, which is to provide appropriate advice to Council so that Council is able to:

- Display well informed, efficient and effective decision making
- Promote and monitor an ethical culture throughout the Council and comply with any relevant code of conduct
- Implement a sound system of risk oversight and management
- Implement an effective and efficient internal control system
- Protect the Councils assets
- Protect against litigation and claims
- Protect against fraud
- Comply with applicable legislation, regulations, standards and Council policies
- Demonstrate quality internal and external reporting
- Display effective communications between the Council and the internal and external auditors and provide timely responses to matters arising from audits

The Committee comprises of six members, being two Councillors and four suitably qualified independent members (external to Council). A substitute Councillor may stand in for another Councillor if they are unable to attend a meeting. The size of the membership enables the Committee to effectively operate with an independent Chairperson and a meeting quorum at all times. Independent members can be appointed for a maximum term of three years. All positions are currently occupied. The membership of the Committee over the past twelve months was as follows:

*External Members:*

- Mrs Claire Higgins (Chair 24 October 2012 to 31/03/2015)
- Mr Brian Keane (1 February 2013 to 31 January 2016)  
(Chair from 31/03/2015)
- Ms Melissa Field (1 February 2013 to 31 January 2016)
- Mr Peter Dryden (1 February 2012 to 31 January 2015)
- Ms Debra Russell (27 January 2015 to 27 January 2018)
- Mr John Gavens (27 January 2015 to 27 January 2018)

*Councillors:*

- Cr Rod Nockles (28 November 2012 to 24 March 2015 - resigned)
- Cr Margot Smith (24 March 2015 to current)
- Cr Clive Goldsworthy (28 November 2012 to current)

# Audit and Risk Committee Annual Report 2014 - 2015

---

The chairperson of the Committee is appointed by Council and must be one of the four independent external members. I was appointed by Council as the Audit and Risk Committee Chair from 31 March 2015 following the expiration of the previous Chair's (Claire Higgins) term as an independent member. John Gavens and Debra Russell were appointed on 27 January 2015.

The Audit and Risk Committee held four meetings during the 2014 - 2015 financial year. The meetings were held on:

- 3 September 2014
- 11 November 2014
- 17 February 2015
- 19 May 2015

The previous Chair also met with Council on 9 September 2014 and 10 March 2015 to discuss the activities of the Committee. The current Chair met with Council on 9 June 2015 and tabled a report for discussion.

## Audit and Risk Committee Outcomes

The Audit and Risk Committee would like to highlight the following outcomes of the 2014 - 2015 financial year to Council.

### **Internal Audit**

Grant Thornton Melbourne have provided Council's internal audit function under its current three year contract, which expires on 31 March 2016, with one further option for a 24 month extension at the end of the third year of the contract term. The Committee continued to monitor the implementation of management responses to recommendations received from internal audits conducted and reported to the Committee during 2014 - 2015. Three internal audits were completed during 2014– 2015.

Control critical areas for which internal audit reports have been received during 2014 - 2015 were:

Audit	Scope of Audit
Capital Planning & Budgeting (October 2014)	<ul style="list-style-type: none"><li>• Review the structure and governance arrangements around capital planning and budgeting, including the following:<ul style="list-style-type: none"><li>○ Approved structure, policies and procedures</li><li>○ Compliance with delegations of authority</li><li>○ Segregation of duties</li></ul></li><li>• Review the adequacy of the capital planning processes and effectiveness of controls for the following:<ul style="list-style-type: none"><li>○ The process to develop the capital plan including criteria adopted, factors considered and alignment with Council Plan</li><li>○ The governance structure including clarity around the process followed to prioritise capital expenditure.</li><li>○ Roles of executive management, departments and Council including level of collaboration and communication between them in shaping the prioritisation exercise.</li><li>○ Review approval process for the prioritisation of capital expenditure including approval of business cases, if any, in line with delegations.</li><li>○ Adherence to Surf Coast's policies and procedures in relation to capital planning.</li></ul></li><li>• Review the process for developing the Council budget and the forecasts, with specific focus on:<ul style="list-style-type: none"><li>○ Alignment with strategic and operational plans;</li><li>○ Historical performance analysis and trending;</li><li>○ Evidence of forecasts and assumptions;</li><li>○ Consultation with management and stakeholders;</li><li>○ Process and timeliness of attaining authorisation from the CEO, Executive Committee and Board;</li></ul></li></ul>

## Audit and Risk Committee Annual Report 2014 - 2015

---

Information  
Technology  
General  
Controls  
(February 2015)

Payroll  
(May 2015)

- Adequacy of tools and technology used during the budgetary process.
- Review the adequacy of the processes and effectiveness of controls surrounding the monitoring and reporting of progress of approved capital works including:
  - Budget to actual variance analysis;
  - Achievement of project milestones;
  - Escalation and authorisation of issues arising.
- Review the adequacy of approved IT operational policies and procedures of the following:
  - IT Security
  - User access management
- Review the IT organisation including:
  - Structure of IT team
  - Structure of subject matter expertise within the IT team.
- Review the adequacy and effectiveness of controls regarding user access for the systems in scope (below) including:
  - The creation, removal and modification of user access
  - The appropriateness of privileged/administrator access
  - Periodic user access reviews
  - Configuration of user password requirements.
- Review the existence and extent of audit logging, and access to these logs, particularly in relation to:
  - User logon/log off
  - Transaction logging
- Review the structure and governance arrangements around payroll processes, including the following:
  - Approved policies and procedures
  - Appropriateness of applicable financial delegations of authority
  - Clarity on the roles and responsibilities
  - Adequacy in the segregation of duties within the payroll function
  - Record keeping and access controls to systems and network folder where pertinent payroll information is maintained.
- Review the adequacy and effectiveness of controls in the management of the employee Masterfile, including:
  - Creation of new employees
  - Amendments to existing employee information in the master file, particularly bank account details
  - Deletion of deactivation of terminated employees
  - Periodic review of Masterfile changes.
- Evaluate the adequacy and effectiveness of procedures and controls in processing timesheets and payroll calculations including:
  - Accuracy and completeness of timesheet entry
  - Ascertain whether timesheets have been appropriately approved in line with policies and procedures
  - Accuracy of payroll calculations of salary and wages, superannuation contribution and leave entitlements.
  - Accuracy of termination calculations including appropriate source data used in payment calculation and processing and authorisation of termination and final payments.
- Consider the appropriateness of current processes and controls for releasing payroll payments including:
  - Generation and processing of payroll payment runs and EFT files
  - Review and verification undertaken prior to payment authorisation
  - Authorisation of payment runs and EFT files
  - Determining whether bank payment authorisations are aligned with Council's financial delegations of authority.
- Assess the adequacy of employee reimbursements processes including:
  - Ascertain if employee reimbursements comply with internal policies and procedures

# Audit and Risk Committee Annual Report 2014 - 2015

---

- Accuracy and completeness of processing of employee reimbursements
- Review and approval of employee reimbursements.
- Review of payroll payment transactional data and employee reimbursements using the IDEA data analytics to identify errors and anomalies, if any. The following tests would be carried out on the dataset for the sample period:
  - Check for duplicate payroll and employee reimbursement payment based on similar employee ID, employee name and amount;
  - Check for duplicate employees based on same bank accounts listed within the employee master file
  - Check for payroll payments paid to employees and/or bank accounts that are not listed in the employee master file.
  - Check of payments to employees sharing the same bank accounts.

An internal audit plan was developed for the 2014-2015 year by Grant Thornton. Improvements have been highlighted to the contract specification to enable an annual review process that will focus on all aspects of the contractor's delivery of internal audit services including:

- Formal evaluation by the Committee of the performance of the contractor on an annual basis
- The implementation of the three year strategic internal audit plan
- The quality of the reports and recommendations prepared by the contractor, and
- Any other matters considered appropriate by the Council.

## **External Audit**

The Victorian Auditor-General's Office delivered an unqualified audit opinion on the Financial, Standard and Performance Statements for 2013 – 2014 year. The 2014 – 2015 audit opinion will be finalised in late September 2015, with preliminary feedback indicating that there are no issues to report. The Committee met with VAGO and reviewed the scope of the external audit for the 2014-2015 financial year prior to the audit.

The Local Government (Planning and Reporting) Regulations 2014 introduced the new Local Government Performance Reporting Framework for the 2014/15 year, and Council participated in the trials which took place. VAGO reported that Surf Coast Shire Council had a 'strong capacity' to report. The new reporting framework will be incorporated into the Performance Statement, with VAGO auditing the relevant sections. Preliminary indications from VAGO are that there are no issues with the 2014 -2015 Performance Statement.

VAGO continues to monitor and report key financial sustainability indicators across all Victorian Councils.

## **General**

During 2014 - 2015 the Committee was also involved in the following activities:

- Received an overview of the updated Strategic Resource Plan & Budget
- Monitored Victorian Auditor-General parliamentary performance audit reports.
- Monitored outstanding litigation risks throughout the year through its litigation reporting framework
- Reviewed the 2014 – 2015 financial statements and met with the external auditors without management representatives to consider the 2014 - 2015 Management Letter.
- Management response to Council and the Committee on the VAGO Local Government Results of the 2013-2014 and 2014-2015 financial sustainability assessment audit reports
- Reviewed progress on the development of the Financial Performance Reporting Framework and considerations of impact of comparisons to similar Councils.
- Inclusion of a performance review mechanism in the internal audit contract via completion of surveys for both the Audit and Risk Committee members and Council management.
- Audit and Risk Committee Chair presentations to Council following Audit and Risk Committee meetings.
- Business continuity progress report updates.

# Audit and Risk Committee Annual Report 2014 - 2015

---

In summary, the Audit and Risk Committee has continued a sound practice of monitoring and recommending improvements to the audit and risk management functions and monitoring the strategic risk management issues facing the Council in 2014-2015.

A detailed work plan for 2014/15 is attached at Appendix 1.

## **Outlook for 2015 – 2016**

The Audit and Risk Committee will meet on 8 September 2015 and has scheduled a further meeting in 2015 to be held on 17 November 2015.

The internal audit function continues to play a key role in assessing the current internal audit needs on an annual basis to respond to changing risks. The Committee has established clear objectives to ensure that the internal audit function continues to add value to the role and function of the Committee. This includes establishing a stronger link to the audit and risk management framework, setting agreed service levels, clear contract performance criteria and formal evaluation of the contract each year.

A new internal audit work plan has been prepared and the following internal audits are scheduled for the remainder of 2015 - 2016:

- FY15 Follow up Reviews on Emergency Management, Key Financial Controls, Rate Revenue and Capital Management.
- Revenue (excluding rates)
- Human Resources

In addition to the above Grant Thornton has also been commissioned to carry out a review of Council's risk register, facilitate a workshop with the Leadership Group to develop the top strategic risks, make recommendations for more strategic reporting of risks and to assess the organisation's risk maturity status. The Committee will continue to monitor the implementation of the risk management framework and reporting system, will provide the Committee with a better understanding of the strategic, project and operational risks at Surf Coast Shire and how they are being managed.