



Audit and Risk Committee  
Annual Report  
2015-2016

## Overview

Surf Coast Shire Audit and Risk Committee was established in 1999. The Committee reports to Council and provides appropriate advice and recommendations relevant to its charter in order to facilitate Council decision making.

Members include 4 independent representatives, one of whom is Chair, and two Councillors. The Committee meets at least four times a year and the minutes of the meetings are tabled at Council. Under the Local Government Amendment (Improved Governance) Act 2015 the Chair has direct access to the Mayor and Councillors should the need arise.

External Audit is undertaken by Victorian Auditor-General's Office (VAGO) and provides an audit opinion on the financial statements of Surf Coast Council. The internal Audit function has been outsourced to Grant Thornton on a 3 year contract which expires on 31 March 2018. A number of internal audits have been undertaken this year with considerable effort spent on considering an appropriate approach to risk management.

The Committee has assessed its own performance and overall is considered to be operating in an effective manner.

## Authority

The functions of the Surf Coast Audit and Risk Committee are established under Section 139 of the Local Government Act 1989. These are set out in the Committee's Charter. The Charter is reviewed at least annually; the last update approved by Council at its 8 December 2015 meeting.

## Membership

Membership for the year 2015/16 was as follows:

Name	Type	2015/16		Term Expiry Date
		Commence Date	Finish Date	
Brian Keane	Independent (Chair)	1 July 2015	30 June 2016	31 January 2017
Melissa Field	Independent	1 July 2015	30 June 2016	31 January 2017
John Gavens	Independent	1 July 2015	30 June 2016	27 January 2018
Debra Russell	Independent	1 July 2015	30 June 2016	27 January 2018
Clive Goldsworthy	Councillor	1 July 2015	27 October 2015	27 October 2015
Margot Smith	Councillor	1 July 2015	30 June 2016	21 October 2016
Brian McKiterick	Councillor	27 October 2015	30 June 2016	21 October 2016

Councillor Goldsworthy resigned from the Committee and was replaced by Councillor McKiterick. Councillor Hodge (Mayor) is entitled to attend as she sees fit. During the year, the Mayor attended the September meeting where the annual financial statements were reviewed and endorsed.

## Meetings and attendance

There were four meetings held during the year, and member attendance was as follows:

Name	8 September 2015	17 November 2015	16 February 2016	17 May 2016
Brian Keane	Present	Present	Present	Present
Melissa Field	Present	Present	Present	Present
John Gavens	Present	Present	Present	Present
Debra Russell	Present	Present	Present	Present
Clive Goldsworthy	Apology			
Margot Smith	Present	Present	Present	Present
Brian McKiterick		Present	Present	Apology

The CEO, General Manager Governance & Infrastructure, Manager Governance & Risk, Manager Finance, Grant Thornton and VAGO representatives are regular attendees at the meetings.

## Work Plan

A Work Plan has been developed to align with the Charter. The Plan is reviewed at each meeting to ensure it remains relevant. A copy of the 2016/17 Plan is attached at Appendix A. In addition, the Executive team include additional items of interest during the year to keep the Committee briefed of emerging issues or changes. For example, reporting of unallocated cash was discussed at length with the Chairman and Council members of the Committee before tabling to the broader Committee in November. There have been ongoing discussions on the approach for managing risk, through risk identification to risk mitigation.

## Key areas

Key areas considered by the Committee over the course of this year include compliance and controls, risk management (including a framework in which to measure and track mitigation), policy reviews and financial, management and performance reporting. A full list of agenda items is attached at Appendix B, and areas of specific interest are included below.

## External Audit

VAGO is the government appointed external auditor that reviews the financial statements of Surf Coast and provides an opinion as to their compliance and accuracy. VAGO met with the Committee on three occasions namely; to comment on the status of the financial statements and performance reporting at the September meeting; to address the management letter at the November meeting and to outline the audit strategy for 2015/16 audit at the February meeting. Subsequent to the May meeting, VAGO published an interim management letter for the year ending 30 June 2016. All items from the prior year have

been satisfactorily closed by Management, and there remain three medium to low issues unresolved but with agreed dates for action.

There appears to be no cause for concern in regard to recording and reporting of Surf Coast's financial statements for 30 June 2016.

### **Internal Audit**

Grant Thornton is Surf Coast Shire's appointed Internal Auditor. Grant Thornton is contracted through to March 2018. Much of the financial year has been focused on enhancing risk identification and mitigation. Both Management and the Committee believed that an ongoing internal audit program could only be adequately established once the risks and the exposure they caused were well understood. Consequently, Grant Thornton has provided Management with advice and guidance in the development of a revamped strategic and operational risk framework.

With the enhanced risk management framework in place, an internal audit plan for 2016/17 is currently in development and is expected to be signed off with Management before 30 June 2016.

Grant Thornton was engaged to address one particular area of concern. Management discovered there were some significant control gaps in purchase order processing. Grant Thornton has not yet completed the Audit but there appears to be no evidence of fraud as a result of the gaps. At the time, Management took immediate steps to address the gaps and is considering longer term plans to rectify systemic issues.

### **Internal controls**

During the year, Management agreed to provide the Committee for review and feedback, draft scope and reference documents for upcoming audits. This approach has and will into the future ensure there is a broad agreed approach in each internal audit project under review.

Prior to the February Committee meeting, Management invited the Committee Chair to a briefing on the findings associated with the Purchasing systems. A paper was presented to the Committee at the February meeting, outlining the issues, the short term actions to be addressed and a framework for longer term actions. There is however a need to consider investment in core systems at Surf Coast to ensure there is a modern, integrated approach to finance and accounting transaction processing.

To demonstrate Council's commitment to fraud and corruption control, the Fraud and Corruption and Control Plan was presented and noted at the September meeting. An updated Fraud and Corruption policy was provided to the Committee at the May 2016 meeting for comment and feedback.

### **Audit and Risk related policy reviews**

A number of audit and risk related policy reviews were tabled for discussion and noting during the year. The Investment policy was included in the September agenda and noted. At the February meeting the Committee requested Management to table a full list of policies considered to be exposed to risk. This remains work in progress and will be refined over coming months. Other policies tabled for discussion and noting included Depreciation, Councillor Entitlements and Gifts and Hospitality. The Committee has discussed Council's

Councillor Code of Conduct policy and are seeking an opportunity to review, in line with legislative changes, in November 2016.

### **Risk Management**

Significant effort has been required by Management to re-align the risk register and identify those risks considered strategic versus those considered to be operational. With the commitment of the Management Executive team, and the assistance of Grant Thornton and Manager Governance and Risk, Council now has a revitalised risk register. A key outcome is the ongoing ownership of risk by senior leadership and managers within Council. Identified strategic risks and mitigation is attached at Appendix C.

### **Financial Reporting**

The annual financial statements for 2014/15 were thoroughly reviewed with Management and the external auditors at the September meeting. There were no material matters raised and the accounts were recommended to Council. Quarterly financial reports were tabled at Committee meetings and there were no material concerns during the course of the year. At the December 2015 meeting, the CEO presented a revised financial reporting approach to highlight unallocated cash. While considered an improved approach in assisting the understanding of Council's cash position, Management accepts that Council is required to compile annual financial statements in the format required by LGA.

### **Compliance**

The Committee offered advice regarding the analysis and presentation of compliance reporting and a framework has been introduced that will benefit Council into the future when considering the status of its compliance obligations.

An updated Compliance Report was presented to the May 2016 meeting for comment and feedback. This update provided the Committee with an insight of the Council's internal control framework in relation to key legislation, policies and procedures. The report was noted as a most useful tool for further development.

The Committee has also conducted local government environmental scans to remain informed of sector wide risks, compliance and emerging issues. These issues have particularly focused on fraud and corruption.

### **Reporting**

The Committee offered suggestions on how to address the various reports that emanate from government sources that can be used to help improve processes at Council. The framework has been adopted by Management and will assist in identifying opportunities to strengthen processes into the future.

Management also provided the Committee with an insight into the business improvement program that seeks to improve financial performance. This is considered a valuable insight as Council seeks to build sustainable savings. The Committee has also considered opportunities to leverage from other councils where there is evidence of better practice.

### **Brian Keane - Chair, Audit and Risk Committee**

## Work Plan 2016/17

Surfcoast Shire Audit Committee  
Work Plan 2016-2017

ISSUE	#67 2016	#68 2016	#69 2017	#70 2017
Audit Committee Meeting Date	Sep	Nov	Feb	May
<b>9.1 External Audit (sections 132 &amp; 133)</b>				
9.1.1 Note the external auditors proposed audit scope and approach, <u>particularly noting including</u> any reliance on internal auditor activity.				√
9.1.2 To discuss matters arising from the external audit with the external auditor.	√			
9.1.3 Report on the VAGO Financial Sustainability Indicators.			√	
9.1.4 To make comment on management's response to the external auditors report.	√			
9.1.5 Review the performance of the external auditors.	√			
9.1.6 Consider the independence of the external auditor in the context of any other services provided to Council.	√			
9.1.7 To monitor the implementation by management of the external auditors recommendations which are adopted by the Council.	√	√	√	√
9.1.8 Meet at least twice annually with the external auditor.	√		√	
9.1.9 Audit committee members-only session with VAGO.	√			
<b>9.2 Internal Audit (section 139)</b>				
9.2.1 To make recommendations to the Council on the appointment and remuneration of the internal auditor.				
9.2.2 To review and recommend to Council on Strategic Annual Internal Audit Plan having regard to Council's Budget and objectives.	√			
9.2.3 To consider internal audit reviews as completed and recommend actions that result in improved performance in these areas to Council	√	√	√	√
9.2.4 As part of the Committee's annual assessment of performance, determine the level of satisfaction with the internal audit function		√		
9.2.5 Report on the Business Improvement Program by providing the Internal Audit Plan and Status Update	√	√	√	√
9.2.6 Audit committee members-only session with Internal Auditors.	√	√	√	√
<b>9.3 Internal Control</b>				
9.3.1 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 managements responses.	√	√	√	√
9.3.2 Consider with the auditors any acts of fraud, any illegal undertakings and any deficiencies or breaches of security	√	√	√	√
<b>9.4 Accounting and Investment Policies</b>				
9.4.1 To consider recent developments in accounting principles or reporting practises that may affect Council	√	√	√	√
9.4.2 To annually review the Council's accounting principles, policies and practices as outlined in the annual financial statements.	√			
9.4.3 To annually review the Council's investment policy				√
9.4.4 To review Council's Property, Infrastructure and Plant & Equipment policy				√
<b>9.5 Risk Management</b>				
9.5.1 To monitor Council's risk management system	√	√	√	√
9.5.2 To work with management to ensure significant risks are adequately managed	√	√	√	√

**Surfcoast Shire Audit Committee  
Work Plan 2016-2017**

ISSUE	#67 2016	#68 2016	#69 2017	#70 2017
Audit Committee Meeting Date	Sep	Nov	Feb	May
9.5.3 To ensure that Council receives timely reporting of existing and emerging risks and the planned treatment of those risks by management	√	√	√	√
9.5.4 Monitor processes and practises of the Council to ensure effective business continuity	√	√	√	√
9.5.5 To annually review the Council's risk policies and the Enterprise Risk Management Report format.	√			
<b>9.6 Financial Reporting</b>				
9.6.1 Gain an understanding of current areas of greatest financial risk and how they are managed	√	√	√	√
9.6.2 Review significant accounting and reporting issues, and understand their impact on financial reports	√	√	√	√
9.6.3 Review complex and unusual financial transactions and highly judgemental areas, and understand their effect on the financial statements	√	√	√	√
9.6.4 Oversee the periodic reporting process implemented by management and review financial statements before release	√	√	√	√
9.6.5 To review the annual financial statements prior to their approval by the Council.	√			
<b>9.7 Compliance</b>				
9.7.1 Review effectiveness of systems for monitoring compliance with laws, regulations, internal policies and industry standards, and the results of managements investigation and follow up of instances of non - compliance				√
9.7.2 Obtain regular updates from management about compliance matters that have a material impact on the financial statements, strategies, operations and reputation	√	√	√	√
9.7.3 To consider recent developments and updates in the Local Government various Acts that have impact on compliance matters that may affect Council.	√	√	√	√
9.7.4 Review of Council Policies/Procedures:				
Procurement			√	
Councillor Code of Conduct		√		
Infrastructure Asset Management	√			
Risk Management	√			
Capital Works Community Engagement	√			
Sale of Council Land (TBA)				
Occupational Health and Safety (TBA)				
Asset Recognition (TBA)				
Business Continuity	√			
Protected Disclosures				√
Freedom of Information				√
Privacy and Data Protection				√
Councillor Entitlements (May 2018)				
Infrastructure Special Rates and Charges Scheme (May 2018)				
Gifts, Benefits and Hospitality (May 2018)				
9.7.5 To annually report on (1) Gifts & Hospitality Register (2) Councillor entitlements and (3) Councillor education and other reimbursement expenses				√
<b>9.8 Fraud</b>				
9.8.1 Review management's fraud prevention strategies and programs including numbers trained in fraud awareness.	√		√	

**Surfcoast Shire Audit Committee  
Work Plan 2016-2017**

ISSUE	#67 2016	#68 2016	#69 2017	#70 2017
Audit Committee Meeting Date	Sep	Nov	Feb	May
9.8.2 Ensure that fraud reporting obligations have been met	√	√	√	√
9.8.3 To review the Council's fraud and corruption control policies and plan: Fraud Control Policy (May 2018)				√
Fraud and Corruption Control Plan (May 2017)				√
9.8.4 Review reporting and any key performance indicators and outcomes from the Fraud & Corruption Control Plan (FCCP)	√		√	
<b>9.9 Reporting</b>				
9.9.1 Audit and Risk Committee (ARC) Chair to brief Council on ARC activities	√	√	√	√
9.9.2 Report regularly to Council about the Committee's activities, issues, and related recommendations through circulation of minutes after each meeting.	√	√	√	√
9.9.3 Consider the findings and recommendations of relevant Performance Audits undertaken by the Victorian Auditor General, Ombudsman Victoria and IBAC and ensure Council implements relevant recommendations	√	√	√	√
9.9.4 To annually report on Local Government Performance Reporting Framework (LGPRF) results	√			
9.9.5 Report on yearly activities to Council via a Committee Annual Report.	√			
<b>9.10 Other</b>				
9.10.1 Perform other activities related to the Charter as requested by Council	√	√	√	√
9.10.2 Review and assess the adequacy of the Audit & Risk Committee Charter annually		√		
9.10.3 Evaluate the Audit & Risk Committee's performance annually and include evaluation in the annual report to Council (including Management evaluation).	√			
9.10.4 Establish an annual work plan that ensures proper coverage of matters laid out in the Audit and Risk Committee Charter.	√	√	√	√



## Agenda Topics 2015/16

## September 2015

- Risk Framework
- Council's Enterprise Risk Management Report
- Summary of the 2014-15 Results
- Annual Financial Statements 2014-15
- Performance Audit Reports from External Agencies.
- Business Improvement Audit Plan and Status Update
- Internal Auditors (Grant Thornton) Status Update
- External Auditor's (VAGO) Update
- Surf coast Shire Council Performance Statement 2014-15
- Audit Committee Self-Assessment Questionnaire
- Fraud and Corruption Control Plan Report
- Draft Investment Policy
- Winchelsea Aged Care Units Update
- Draft Audit and Risk Committee Charter
- Audit and Risk Committee Annual report 2014-15
- Audit and Risk Committee Work-Plan 2015-16

## February 2016

- 2015-16 Fire Danger Season Update
- People and Culture Update on the 2015 Aon Hewitt Employee Engagement Report.
- Council's Enterprise Risk Management Report
- Council's Work Health and Safety and Project Management Report
- Internal Auditors (Grant Thornton) Status Update
- External Auditor's (VAGO) Update
- An update on Council's compliance with legislation and other obligations
- An update on Council's fraud prevention strategies and programs.
- Local Government Performance Reporting Framework Financial Performance Indicators
- Council's Purchasing System
- Council's Financial Report
- Performance Audit Reports from External Agencies.
- Business Improvement Program Update
- Internal Auditors (Grant Thornton) Status Update
- External Auditor's (VAGO) Update

## November 2015

- Climate Change & 2015-16 Fire Danger Season
- Council's Enterprise Risk Management Report
- Council's OH & S Update
- Council's Financial Report
- Performance Audit Reports from External Agencies.
- Business Improvement Audit Plan and Status Update
- Internal Auditors (Grant Thornton) Status Update
- External Auditor's (VAGO) Update
- Review of Council's Works Depots
- Procurement MAV LEAP Update
- Legislative updates – Local Government Act 1989 and LG (General)Regulations 2004
- Audit Committee Self-Assessment Questionnaire results
- Audit and Risk Committee Charter Update
- Audit and Risk Committee Work-Plan 2015-16

## May 2016

- Compliance Report
- Legislative updates (proclaimed on 1 March 2016)
- A Policy Matrix and Flowchart
- Council's Enterprise Risk Management Report
- Council's Work Health and Safety and Project Management Report
- Council's Gifts and Hospitality Register and Councillor Entitlements, Education and Other Expenses Report.
- Council's Financial Report
- Performance Audit Reports from External Agencies.
- Business Improvement Program Update
- Internal Auditors (Grant Thornton) Status Update
- External Auditor's (VAGO) Update on Audit Strategy.
- Council's Risk Management Policy
- Council's revised draft Councillor Entitlements (Expenses and Facilities) policy and the Gifts and Hospitality Policy
- Council's draft Fraud and Corruption Policy
- Council's draft Depreciation of Property, Infrastructure and Plant & Equipment Policy
- Council's Investment Policy.

Strategic Risks Summary

Strategic Risk Register						
Item No.	Risk No.	Risk Owner	Risk	Inherent Risk Rating	Current Risk Rating	Residual risk Rating
1	106	Manager Environment & Community Safety	A pandemic event impacts on the health and wellbeing of the community.	20 Extreme / Likely	12 Major / Likely	12 Major / Likely
2	92	Manager Environment & Community Safety	Failure to adequately manage and protect biodiversity on land Council owns or manages in accordance with legal requirements and community expectations.	16 Critical/ Likely	6 Minor / Possible	6 Minor / Possible
3	36	Manager Environment & Community Safety	Extreme weather event - bushfire, flood, wind storm - which significantly damages infrastructure.	15 Extreme/ Possible	15 Extreme/ Possible	15 Extreme/ Possible
4	94	Manager Environment & Community Safety	Preparation by Council and coastal communities is not adequate for increased storm surges and sea level rise.	15 Extreme/ Possible	12 Critical / Possible	9 Major/ Possible
5	56	General Manager Community Relations	Service needs of the community now and into the future are not met.	25 Extreme/ Almost Certain	6 Major/ Unlikely	6 Major/ Unlikely
6	53	Manager Leisure & Wellbeing	Culturally significant Aboriginal heritage areas may not have been identified prior to development.	15 Extreme/ Possible	6 Minor / Possible	4 Minor / Unlikely
7	67	Manager People & Culture	Fatality, injury or significant fine to the organisation or an individual in not maintaining a safe work place so far as reasonable practicable.	12 Major / Likely	9 Major/ Possible	9 Major/ Possible
8	21	Manager Finance	Inability to deliver on priorities due to reduction in revenue.	16 Critical/ Likely	9 Major/ Possible	6 Major/ Unlikely
9	68	Manager Finance	Inadequate funds available for payment of future liabilities.	16 Critical/ Likely	6 Minor / Possible	6 Minor / Possible
10	133	Manager Finance	Inability to deliver a cash (EBITDA) surplus to fund requirements.	16 Critical/ Likely	8 Critical / Unlikely	6 Major/ Unlikely
11	134	Manager Finance	Failure to deliver major projects on time, on budget and to scope.	12 Major / Likely	6 Major/ Unlikely	4 Minor / Unlikely
12	71	Manager Finance	Council resources are insufficient to meet population growth demands.	12 Major / Likely	8 Critical / Unlikely	2 Minor/ Rare
13	69	Manager Finance	Loss of Council investments and interest revenue.	8 Minor/ Likely	2 Minor/ Rare	2 Minor/ Rare
14	23	Manager Assets & Capital Works	The long term financial plan fails to prioritize responsible management of the existing asset base above development of new assets.	25 Extreme/ Almost Certain	12 Major / Likely	4 Minor / Unlikely
15	30	Manager Engineering Operations	Damage caused by the failure of trees to assets or people.	20 Critical / Almost Certain	15 Extreme/ Possible	10 Extreme/ Unlikely
16	135	Manager Engineering Services	Inability to manage the EPA requirements regarding operation, closure and remediation of the existing landfill site at Anglesea.	16 Critical/ Likely	9 Major/ Possible	6 Minor/ Possible
17	111	Manager Economic Development & Tourism	Economic downturn impacting key shire employers.	9 Major/ Possible	6 Minor / Possible	6 Minor / Possible
18	22	Manager Governance & Risk	Failure to comply with legal obligations.	9 Major/ Possible	6 Minor / Possible	4 Minor / Unlikely
19	55	Manager Information Management	Insufficient utilization of technology to support productivity and service requirements.	6 Major/ Unlikely	4 Minor / Unlikely	4 Minor / Unlikely