



Audit and Risk Committee
Annual Report
2016-2017

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 and performance 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 assessed its own performance in September 2016 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 annually; the last update was approved by Council at its 24 January 2017 meeting.

Membership

Membership for the year 2016/17 was as follows:

Name	Type	2016/17		Full Term Expiry Date
		FY 17 Commence Date	FY17 Finish Date	
Brian Keane	Independent (Chair)	1 July 2016	30 June 2017	31 January 2019
Melissa Field	Independent	1 July 2016	30 June 2017	31 January 2019
John Gavens	Independent	1 July 2016	30 June 2017	27 January 2018
Debra Russell	Independent	1 July 2016	30 June 2017	27 January 2018
Clive Goldsworthy	Councillor	22 November 2016	30 June 2017	October 2017
Margot Smith	Councillor	1 July 2016	30 June 2017	October 2017
Brian McKitterick	Councillor	1 July 2016	27 October 2016	October 2016

Councillor Brian McKitterick (Mayor) is entitled to attend as he sees fit.

Meetings and attendance

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

Name	8 September 2016	29 November 2016	21 February 2017	16 May 2017
Brian Keane	Present	Present	Present	Present
Melissa Field	Present	Present	Present	Apology
John Gavens	Present	Present	Present	Present
Debra Russell	Present	Present	Present	Present
Clive Goldsworthy	N/A	Present	Present	Present
Margot Smith	Present	Present	Present	Apology
Brian McKitterick	Present	N/A	N/A	N/A

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 2017/18 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. There have been ongoing discussions on the approach for managing risk, through risk identification to risk mitigation.

A particular topic of risk was addressed at the May meeting in regard to the Digital Transformation Program. The Committee is seeking ongoing updates to ensure there is appropriate discussion and transparency through the development of this most strategic program.

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 and performance statements of Surf Coast and provides an opinion that the accounts are presented fairly and are in accordance with the applicable Australian Accounting Standards and the financial reporting requirements of the Local Government Act 1989. 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 2016/17 audit at the February meeting. Subsequent to the May meeting, VAGO published an interim management letter for the year ending 30 June 2017. All items from the prior year have been satisfactorily addressed by Management, and there remains one medium issue unresolved (Purchase Orders – testing of new system), 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 2017.

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 2017/18 has been developed for formal endorsement at the September Audit and Risk Committee meeting.

Grant Thornton was engaged to carry out a review into purchase order processing as significant strengthening of the process was required. Management implemented an alternative process in the short-term and has longer-term plans to improve the system. An initial audit has been completed by Grant Thornton with further work continuing to assess potential risks.

Internal controls

During the year, Management agreed to provide the Committee with draft scope and reference documents for upcoming audits for review and feedback. 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, a report outlining Council's fraud and corruption control strategies and programs was presented and noted at the September meeting.

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 agenda and noted. During the reporting period the Committee requested Management to table a full list of policies

considered to be exposed to risk for the Committee's review. Other policies tabled for discussion and noting included Depreciation, Councillor Entitlements and Gifts & Hospitality. The Committee discussed Council's Councillor Code of Conduct policy before its statutory review.

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 Executive Management 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. A list of identified strategic risks and mitigation is attached at Appendix C.

Financial Reporting

The annual financial statements for 2015/16 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.

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 2017 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 emanating 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.

Acknowledgements

Audit Committee Members

I would like to acknowledge the professionalism and participation of all the members of the Audit Committee. The level of discussion on matters brought before the Committee has

been of a very high standard, which I believe has resulted in tangible benefits to the community, the Council and Council officers. The Committee has also greatly benefited from the contributions of the Councillor Committee Members who bring significant local knowledge and local community experience.

Organisation

I also wish to record my appreciation of the work undertaken by Council staff in supporting the work of the Committee through the leadership of Keith Baillie, Chief Executive Officer.

I would also like to record my appreciation of the support provided to the Audit Committee by Anne Howard, General Manager Governance and Infrastructure, John Brockway, Manager Finance, and Wendy Hope, Manager Governance & Risk, all who have made a significant contribution to assist the Audit Committee in discharging its duties in accordance with the Charter.

Brian Keane - Chair, Audit and Risk Committee

Work Plan 2017/18

Draft Surf Coast Shire Audit Committee
Work Plan 2017 - 2018

No.	Work Plan Item	#71	#72	#73	#74
	Audit Committee Meeting Date	Sep-17	Nov-17	Feb-18	May-18
9.1 External Audit (sections 132 & 133) - (VAGO)					
9.1.1	Note the external auditors proposed audit scope and approach, including 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 auditor's report.	√			
9.1.5	Review the performance of the external auditors.	√			
9.1.6	To monitor the implementation by management of the external auditor's recommendations which are adopted by the Council.	√	√	√	√
9.1.7	Meet at least twice annually with the external auditor.	√		√	
9.1.8	Audit Committee members-only session with VAGO.	√			
9.2 Internal Audit (section 139) - (Internal Auditors)					
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. Review and adopt Year 2/3 of Strategic Audit Plan				√
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.	√	√	√	√
9.3 Internal Control - Audit & Risk Committee (ARC)					
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 management's responses.	√	√	√	√
9.3.2	Consider with the auditors any acts of fraud, any illegal undertakings and any deficiencies or breaches of security	√	√	√	√
9.4 Accounting and Investment Policies					
9.4.1	To consider recent developments in accounting principles or reporting practices 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				√
9.5 Risk Management					
9.5.1	To monitor Council's risk management system	√	√	√	√
9.5.2	To work with management to ensure significant risks are adequately managed	√	√	√	√
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 practices 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.		√		
9.6 Financial Reporting					
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.	√			
9.7 Compliance					
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				√

**Draft Surf Coast Shire Audit Committee
Work Plan 2017 - 2018**

No.	Work Plan Item	#71	#72	#73	#74
	Audit Committee Meeting Date	Sep-17	Nov-17	Feb-18	May-18
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 various Acts that have an impact on compliance matters that may affect Council.	√	√	√	√
9.7.4	Policies for ARC comment before presentation to EMT/Council				
	SCS 019 Procurement (last reviewed August 2016)	√			
	SCS 002 Councillor Code of Conduct (November 2020)				
	SCS 005 Strategic Asset Management (September 2018)				
	SCS 021 Risk Management (next full review by management August 2018)				
	SCS 025 Capital Works Community Engagement (March 2019)				
	SCS 013 Sale of Council Land (August 2017)	√			
	SCS 014 Occupational Health and Safety (May 2019)				
	SCS 028 Depreciation of Property, Plant & Equipment (June 2018)				
	MPP 009 Business Continuity (August 2019)				
	MPP 040 Protected Disclosures (July 2020)				
	MPP 043 Freedom of Information (July 2020)				
	MPP 001 - Fixed Asset Policy (to SCS 028 Depreciation of Property, Plant & Equipment (June 2018)				
	MPP 005 Privacy and Data Protection (July 2020)				
	SCS 001 Councillor Entitlements (August 2018)				
	SCS 009 Infrastructure Special Rates and Charges Scheme - in development (September 2017)	√			
	SCS 018 Gifts, Benefits and Hospitality (August 2018)				
9.7.5	To annually report on (1) Gifts & Hospitality Register (2) Councillor entitlements and (3) Councillor education and other reimbursement expenses				√
	9.8 Fraud				
9.8.1	Review management's fraud prevention strategies and programs including numbers trained in fraud awareness.	√		√	
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:				
a.	MPP 0015 Fraud Control Policy (May 2018)				√
b.	Fraud and Corruption Control Plan (Feb 2018)			√	
9.8.4	Review reporting and outcomes from the Fraud & Corruption Control Plan (FCCP)	√		√	
	9.9 Reporting				
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.	√			
9.9.6	Report on progress of Digital Transformation Strategy.	√	√	√	√
	9.10 Other				
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 2016/17

September 2016

- Outstanding Issues & Actions Report
- Chief Executive Officer's Update
- Business Improvement Program
- Enterprise Risk Management Report, Risk Management Strategy and Risk Appetite
- Work Health & Safety Report
- 2015/16 Year End Program Management Report
- Internal Auditors Update (Grant Thornton)
- Performance Audit Reports - External Agencies
- End of Financial Year Presentation
- Annual Financial Statements 2015-16
- Surf Coast Shire Performance Statement 2015 – 2016
- Victorian Auditor General's Office (VAGO) Update
- Policy Matrix
- SCS-005 Strategic Asset Management Policy
- SCS-025 Capital Works Community Engagement Policy
- SCS-014 Workplace Health and Safety Policy
- MPP 009 Business Continuity Procedure
- Audit and Risk Committee Annual Report 2015/16
- Committee Self-Assessment Questionnaire
- Fraud Prevention Strategies and Programs
- Legislative Update
- Council Controls relating to Councillor Costs
- Compliance Checklist
- Next Meeting & Proposed Agenda Outline

February 2017

- Outstanding Issues & Actions Report
- Chief Executive Officer's Update
- Managing Risk Associated with Trees - Presentation
- Business Improvement Program
- Workplace Health and Safety Report
- Enterprise Risk Management Report February 2017
- Grant Thornton Internal Auditor Status Report
- External Auditor Update (Victorian Auditor General's Office)
- Performance Audit Report November - January
- Quarterly Financial Report - December
- Program Status Report - October to December 2016 Quarter
- Fraud and Corruption Strategies
- Key Audit Themes 2015-16
- Mandatory Reporting to IBAC
- Future Role of Audit and Risk Committees - Local Government Act Review
- Transition to New Internal Audit Contract March 2018
- Next Meeting Date and Proposed Agenda

November 2016

- Outstanding Issues & Actions Report
- Chief Executive Officer's Update
- Business Improvement Program
- Work Health & Safety Report
- Enterprise Risk Management Report
- External Auditor Update (Victorian Auditor General's Office)
- Performance Audit Reports - External Agencies
- Quarterly Financial Report - September 2016
- Program Status Report July to September Quarter 2016
- SCS-002 Councillor Code of Conduct - Review
- Review of Audit Committee Charter
- Audit Committee Independent Members - Expressions of Interest
- Next Meeting, Proposed Agenda Outline and Schedule 2017
- Grant Thornton Internal Audit Status Report and Update

May 2017

- Outstanding Issues & Actions Report
- Chief Executive Officer's Update
- Business Improvement Program
- Road Management Plan Update
- Tree Risk Management Plan Update
- Digital Transformation
- Workplace Health & Safety Report - Quarter 3 2016-17
- Enterprise Risk Management Report - May 2017
- Internal Auditor Status Report (Grant Thornton)
- Strategic Internal Audit Plan – Financial Year 2018
- External Auditor Update (Victorian Auditor General's Office)
- Performance Audit Report February - April 2017
- Quarterly Financial Report - March 2017
- Monthly Finance Report - March 2017
- Draft Budget 2017-18 & Long Term Financial Plan Update
- Program Status Report - January to March 2017
- SCS-014 Workplace Health & Safety Policy
- SCS-016 Investment Policy
- Draft MPP-001 Asset Accounting Policy
- Management Policies for Review
- Compliance with Legislation, Policy & Procedures
- Letter to Grant Thornton
- Gifts & Hospitality Register & Councillor Entitlements, Education & Other Expenses Report
- Development of the Council Plan 2017-2021
- Transparency of Local Government Decision Making
- Committee Work Plan 2017-2018
- Next Meeting & Proposed Agenda Outline

Appendix C

Strategic Risks Summary

Strategic Risk Register						
Item No.	Risk No.	Risk Owner	Risk	Inherent Risk Rating	Current Risk Rating	Residual risk Rating
1	23	Strategic Asset Manager	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
2	56	General Manager Culture & Community	Service needs of the community now and into the future are not met.	25 Extreme/Almost Certain	6 Major/ Possible	6 Major/ Unlikely
3	30	Manager Facilities & Open Space Operations	Damage caused by the failure of trees to assets or people.	20 Extreme / Likely	15 Extreme/ Possible	10 Extreme/ Unlikely
4	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
5	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
6	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
7	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
8	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
9	53	Manager Recreation & Open Space Planning	Culturally significant Aboriginal heritage areas may not have been identified prior to development.	15 Extreme/ Possible	6 Minor / Possible	4 Minor / Unlikely
10	21	Manager Finance	Inability to deliver on priorities due to reduction in revenue.	16 Critical/ Likely	9 Major/ Possible	6 Major/ Unlikely
11	68	Manager Finance	Inadequate funds available for payment of future liabilities.	16 Critical/ Likely	6 Minor / Possible	6 Minor / Possible
12	133	Manager Finance	Inability to deliver a cash (EBITDA) surplus to fund requirements.	16 Critical/ Likely	6 Major/ Unlikely	6 Major/ Unlikely
13	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
14	134	Manager Program Management Office	Failure to deliver major projects on time, on budget and to scope - this risk is under review.	12 Major / Likely	6 Major/ Unlikely	4 Minor / Unlikely
15	71	Manager Finance	Council resources are insufficient to meet population growth demands.	12 Major / Likely	6 Major / Unlikely	2 Minor/ Rare
16	111	Manager Economic Development & Tourism	Economic downturn impacting key hire employers.	9 Major/ Possible	6 Minor / Possible	6 Minor / Possible
17	22	Manager Governance & Risk	Failure to comply with legal obligations.	9 Major/ Possible	6 Minor / Possible	4 Minor / Unlikely
18	69	Manager Finance	Loss of Council investments and interest revenue.	8 Minor/ Likely	2 Minor/ Rare	2 Minor/ Rare
19	55	Manager Information Management	Insufficient utilization of technology to support productivity and service requirements.	6 Major/ Unlikely	4 Minor / Unlikely	4 Minor / Unlikely