



Minutes

Meeting of the Audit & Risk Committee
Tuesday, 21 February 2017

Held in the
Council Chambers
1 Merrijig Drive, Torquay
Commencing at 9.00am

MINUTES FOR THE AUDIT & RISK COMMITTEE MEETING
HELD IN THE COUNCIL CHAMBERS, 1 MERRIJIG DRIVE, TORQUAY
ON TUESDAY 21 FEBRUARY 2017 COMMENCING AT 9.00AM

PRESENT:

COMMITTEE MEMBERS

Cr Clive Goldsworthy
Cr Margot Smith
Brian Keane (Chair) (Term expires 01/02/2020)
Melissa Field (Term expires 01/02/2020)
John Gavens (Term expires 27/01/2018)
Debra Russell (Term expires 27/01/2018) (*arrived at 9.42am*)

In Attendance:

Keith Baillie – Chief Executive Officer
Anne Howard – General Manager Governance & Infrastructure
John Brockway – Manager Finance
Wendy Hope – Manager Governance & Risk
Tim Loughnan – (VAGO)
Sanchu Chummar – (VAGO) (*arrived at 9.28am*)
Brendan Walsh – Manager Business Improvement
Travis Nelson - Manager Facilities & Open Space Operations
Leanne Perryman – Manager People & Culture
Stephen Turnley – WHS Advisor
Maureen White – Coordinator Risk Management and Legal Services
Danielle Foster – Co-ordinator Corporate Planning
Danni Vasiloski – Team Leader Governance
Matthew Green – Grant Thornton (*via Teleconference*)
Robert Baines – Grant Thornton (*via Teleconference*)

APOLOGIES:

Scott Hartley – (Grant Thornton)
Trai Moorthy – (Grant Thornton)

CONFIRMATION OF MINUTES:

Committee Resolution

MOVED Mr Brian Keane, Seconded Cr Margot Smith

That the Audit & Risk Committee Meeting note the minutes of the meeting held on 29 November 2016 as a correct record of the meeting.

CARRIED

CONFLICTS OF INTEREST:

Nil.

BUSINESS:

1. OUTSTANDING ISSUES & ACTIONS	4
1.1 <i>Outstanding Issues & Actions Report</i>	<i>4</i>
2. PRESENTATIONS	5
2.1 <i>Chief Executive Officer's Update</i>	<i>5</i>
2.2 <i>Managing Risk Associated with Trees - Presentation</i>	<i>6</i>
2.3 <i>Business Improvement Program - Status Report</i>	<i>7</i>
3. RISK MANAGEMENT	8
3.1 <i>Workplace Health and Safety Report - Q2</i>	<i>8</i>
3.2 <i>Enterprise Risk Management Report February 2017</i>	<i>9</i>
4. AUDIT REPORTS.....	10
4.1 <i>Grant Thornton Internal Auditor Status Report.....</i>	<i>10</i>
4.2 <i>External Auditor Update (Victorian Auditor General's Office).....</i>	<i>11</i>
4.3 <i>Performance Audit Report November - January</i>	<i>12</i>
5. FINANCIAL REPORTS	13
5.1 <i>Quarterly Financial Report - December 2016.....</i>	<i>13</i>
5.2 <i>Program Status Report - October to December 2016 Quarter</i>	<i>14</i>
6. OTHER REPORTS	17
6.1 <i>Fraud and Corruption Strategies</i>	<i>17</i>
6.2 <i>Key Audit Themes 2015-16</i>	<i>21</i>
6.3 <i>Mandatory Reporting to IBAC.....</i>	<i>22</i>
6.4 <i>Future Role of Audit and Risk Committees - Local Government Act Review.....</i>	<i>26</i>
7. ADMINISTRATIVE MATTERS.....	28
7.1 <i>Transition to New Internal Audit Contract March 2018.....</i>	<i>28</i>
7.2 <i>Next Meeting Date and Proposed Agenda</i>	<i>29</i>
8. CLOSED SECTION	31

1. OUTSTANDING ISSUES & ACTIONS

1.1 Outstanding Issues & Actions Report

Charter Reference: 9.2.3

Author's Title: Team Leader Governance

General Manager: Anne Howard

Department: Governance & Risk

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC17/113

Appendix:

1. Audit and Risk Committee Outstanding Issues & Actions - Status Log (D16/1527)
2. Audit and Risk Committee Outstanding and Issues Actions Report - 21 February 2017 (D17/15568)

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to receive an update on the progress made on action items identified through previous Audit reports and Audit & Risk Committee meetings.

Items previously notified as completed are shaded in orange and will be removed from the report when the whole of that section has been completed.

Recommendation

That the Audit & Risk Committee receives the Outstanding Issues and Actions Report and notes the progress to date.

Meeting Discussion

- Following feedback at the last Audit & Risk Committee (ARC) meeting a number of long standing items were noted for completion. Noted where risk is low and can be accepted, with actions closed.
- Fixed Asset Revaluation Policy to proceed to next ARC meeting 16 May 2017.
- Page 8 of Agenda Item 2 – 3.2 Purchase orders raised after invoice date – John Brockway to cross check with Monthly report and report back to next ARC meeting 16 May 2017.

Committee Resolution

MOVED Ms Debra Russell, Seconded Mr John Gavens

That the Audit & Risk Committee receives the Outstanding Issues and Actions Report and notes the progress to date.

CARRIED

2. PRESENTATIONS

2.1 Chief Executive Officer's Update

Charter Reference: N/R

Author's Title: Chief Executive Officer

CEO: Keith Baillie

Department: Office of the CEO

File No: F17/145

Division: Office of the CEO

Trim No: IC16/1337

Appendix:

Nil

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to receive an organisational update from Keith Baillie, Chief Executive Officer.

Recommendation

That the Audit & Risk Committee receive and note the Chief Executive Officer's update.

Meeting Discussion

- CEO welcomed Brian Keane and Melissa Field who have been reappointed as independent members for three years. Brian Keane appointed as Chair for 2 years.
- Council Plan development is well underway, with Council having issued a Discussion Paper that is out for community conversation. The themes are resonating with the community, addressing the importance issues of people, environment, growth, economy and governance.
- Council Budget development is well underway, based on a 2% rate cap. Council is reviewing the Long Term Financial Plan on 28 February 2017. The Draft Budget is planned to be issued on 11 April 2017.
- Officers are proposing that Council make a significant 3-year budget allocation to Digital Transformation to drive service, capacity and savings.
- Forecast operational result for the year is favourable to budget, with end of January being significantly favourable.
- Business improvement program is on target to reach its goal of \$450k in financial benefits for the year.
- Capital works and operational program remains significantly behind our full year \$26m target, although we have reviewed and strengthened our delivery capacity.
- Recruitment for the General Manager Environment and Development has commenced with the position now advertised.
- G21 annual Canberra advocacy trip is scheduled for 21-23 March.
- Officers are preparing an advocacy plan for the November 2018 State Election, to be formally considered by Council in July/August.
- Committee members asked about the management of risk for those functions that Council delivers on behalf of GORCC; the Committee discussed the strategic context and in particular dog management and sleeping in vehicles.

Committee Resolution

MOVED Ms Melissa Field, Seconded Mr John Gavens

That the Audit & Risk Committee receive and note the Chief Executive Officer's update.

CARRIED

2.2 Managing Risk Associated with Trees - Presentation

Charter Reference: N/R

Author's Title: Manager Facilities & Open Space Operations **General Manager:** Chris Pike

Department: Facilities & Open Space Operations **File No:** F17/145

Division: Culture & Community **Trim No:** IC17/156

Appendix:

Nil

Officer Direct or Indirect Conflict of Interest:

In accordance with Local Government Act 1989 – Section 80C:

Status:

Information classified confidential under Section 77 of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to receive a presentation on Managing Risk Associated with Trees.

Recommendation

That the Audit & Risk Committee receive and note the presentation on Managing Risk Associated with Trees.

Meeting Discussion

- Inventory of hazardous trees developed in 2013 / 2014.
- Tree Risk Management Plan 2015 provides guidelines on how to manage trees posing risks.
- Current review of Road Management Plan to incorporate Tree Risk Management Plan.
- Discussed need to include VicRoads and GORCC in review of plan to ensure no management gaps.
- Stage 3, Lorne Street Tree Audit commencing soon.

Committee Resolution

MOVED Cr Clive Goldsworthy, Seconded Cr Margot Smith

That the Audit & Risk Committee receive and note the presentation on Managing Risk Associated with Trees.

CARRIED

2.3 Business Improvement Program - Status Report

Charter Reference: 9.2.5

Author's Title: Manager Business Improvement **CEO:** Keith Baillie

Department: Business Improvement **File No:** F16/881

Division: Office of the CEO **Trim No:** IC17/110

Appendix:

1. Business Improvement Program - Update for February 2017 Audit and Risk Committee Meeting (D17/11819)

Officer Direct or Indirect Conflict of Interest:

In accordance with Local Government Act 1989 – Section 80C:

Yes

No

Status:

Information classified confidential under Section 77 of the Local Government Act:

Yes

No

Reason: Nil

Purpose

The purpose of this report is to receive an update on activities associated with the Business Improvement Program.

Discussion

A briefing was last provided to the Audit and Risk Committee on the Business Improvement Program at the November 2016 meeting.

This report provides an update on the progress of the 2016/17 work plan.

Recommendation

That the Audit & Risk Committee notes the progress of the Business Improvement Program.

Meeting Discussion

- Business Improvement Program Update.
- On track to achieve target of \$450k for 2016 – 17 financial year.

Committee Resolution

MOVED Cr Margot Smith, Seconded Mr John Gavens

That the Audit & Risk Committee notes the progress of the Business Improvement Program.

CARRIED

3. RISK MANAGEMENT

3.1 Workplace Health and Safety Report - Q2

Charter Reference: N/A

Author's Title: Manager People & Culture

General Manager: Chris Pike

Department: People & Culture

File No: F16/145

Division: Culture & Community

Trim No: IC17/142

Appendix:

1. Audit & Risk Committee Report Workplace Health and Safety Q2 (D17/15583)

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to receive an update on actions and outcomes relating to Workplace Health and Safety for the period October to December 2016.

Recommendation

That the Audit & Risk Committee receive and note the Workplace Health and Safety report.

Meeting Discussion

- Incidents/hazards now separately recording activity items from audits.
- Incidents logged by age and tenure reveal manual handling process as main contribution factor with Outdoor and Community Care workers most affected. Review being conducted and preventative measures being introduced to address repetitive work injuries. Information indicates that it is older workers who been here longer who are sustaining most injuries.
- Discussed importance of developing a safety culture.
- Tool box meetings for Outdoor workers are held with WHS officers in attendance.
- Safe Work Method Statements to be implemented for Community Care workers.
- System limitations show incidents logged by OHS team under Culture and Community rather than by originating area for some areas.

Committee Resolution

MOVED Cr Margot Smith, Seconded Ms Melissa Field

That the Audit & Risk Committee receive and note the Workplace Health and Safety report.

CARRIED

Cr Smith left the meeting at 09:54 am. Cr Smith returned to the meeting at 09:55 am.

3.2 Enterprise Risk Management Report February 2017

Charter Reference: 9.5.1

Author's Title: Coordinator Risk Management & Legal Services
General Manager: Anne Howard

Department: Governance & Risk
File No: F17/205

Division: Governance & Infrastructure
Trim No: IC17/132

Appendix:

1. Enterprise Risk Management Report February 2017 (D17/15194)

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 – Section 80C:

Information classified confidential under Section 77 of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to present the Enterprise Risk Management Report to the Audit & Risk Committee.

The report includes:

- a) Risk Profile
- b) Strategic Risks – Current Rating Serious or High – work in progress includes starting to assess and note control effectiveness and evidence.
- c) Operational Risks – Current Rating Serious
- d) Risk Treatment Action Status
- e) New and Emerging Risks
- f) Risk Management Improvement Activities

Recommendation

That the Audit & Risk Committee note the Enterprise Risk Management Report.

Meeting Discussion

- Management of change identified by the Executive as an emerging risk on the ERM report. . Example of major change programs is Digital Transformation.
- Working with Program Management Office to identify risk at design stage for projects.
- Risk management training has been provided to Program Management Office staff to include identification of risks at design stage.
- Fraud training by JLT for Leadership and key staff scheduled for March 2017.
- Business Continuity Exercise and staff information sessions scheduled for Business Continuity week 15 – 17 May 2017.
- Debra Russell noted the improvements in Risk Management reporting over the last two years.

Committee Resolution

MOVED Mr John Gavens, Seconded Ms Debra Russell

That the Audit & Risk Committee note the Enterprise Risk Management Report.

CARRIED

4. AUDIT REPORTS

4.1 Grant Thornton Internal Auditor Status Report

Charter Reference: 9.2.3

Author's Title: Manager Governance & Risk

General Manager: Anne Howard

Department: Governance & Risk

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC17/120

Appendix:

1. Confidential - Grant Thornton - Audit and Risk Committee - Internal Audit Status Report 21 February 2017 (D17/13032)

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is for Grant Thornton to provide a verbal update on the status of reviews including Road Management, Community Engagement and Purchasing Stage 2.

Recommendation

That the Audit & Risk Committee receive and note the update from Grant Thornton.

Meeting Discussion

- Brian Keane, ARC Chair expressed disappointment that Grant Thornton were not present at today's meeting.
- Grant Thornton provided a status update via teleconference.
- Trai Moorthy, Senior Manager – Public Sector Advisory, no longer employed by Grant Thornton and has been replaced by Robert Baines
- Scott Hartley, Partner - Public Sector Advisory Lead, Grant Thornton is leaving and has been replaced by Matthew Green – Partner Growth Advisory.
- Community Engagement audit report submitted for management feedback, to be closed off by end of the week.
- Close out meeting on Road Management Plan Audit scheduled for today. Report to be presented at May ARC meeting.
- Catch up meeting arranged with Anne Howard, John Brockway and Wendy Hope scheduled for later this afternoon.
- Grant Thornton committed to service program for 2017/18 and confirmed they have sufficient resources for next two audits.
- Grant Thornton will attend upcoming Audit & Risk Committee meetings.
- Formal letter to Grant Thornton confirming expectations for remainder of contract to be prepared and included in May ARC agenda.

Committee Resolution

MOVED Ms Melissa Field, Seconded Cr Margot Smith

That the Audit & Risk Committee receive and note the update from Grant Thornton.

CARRIED

4.2 External Auditor Update (Victorian Auditor General's Office)

Charter Reference: 9.1.2

Author's Title: Manager Finance

General Manager: Anne Howard

Department: Finance

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC16/1338

Appendix:

1. 2016-2017 Audit Strategy (VAGO) (D17/11200)

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to receive a verbal update from the External Auditors (VAGO) on the audit strategy.

Recommendation

That the Audit & Risk Committee receive and note the External Auditors (VAGO) update.

Meeting Discussion

- Change to audit report format to include materiality.
- Key Audit matters will be reported on for the following financial year.
- New Auditor General appointed September 2016. Interest in Local Government. Expect changes to Financial Statements.
- Related Party Disclosures of Key Management Personnel (KMP) including councillors, CEO and individuals reporting directly to the CEO to be included in the 2017 Financial Report and include
 - i) aggregate salaries of the KMP group and
 - ii) any other transactions between KMP and council.

Committee Resolution

MOVED Mr John Gavens, Seconded Ms Debra Russell

That the Audit & Risk Committee receive and note the External Auditors (VAGO) update.

CARRIED

4.3 Performance Audit Report November - January

Charter Reference: 9.9.3

Author's Title: Coordinator Risk Management & Legal Services **General Manager:** Anne Howard

Department: Governance & Risk **File No:** F16/1075

Division: Governance & Infrastructure **Trim No:** IC17/56

Appendix:

1. Performance Audit Report November 2016 - January 2017 (D16/122459)

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 – Section 80C:

Information classified confidential under Section 77 of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to present the Performance Audit Reports from the various external agencies to identify learnings for Council.

Full copies of the reports can be located at the relevant websites.

Recommendation

That the Audit & Risk Committee receives and notes the various external agencies performance audit reports and identify any learnings for Council.

Meeting Discussion

- Appendix taken as read.
- Brian Keane, ARC Chair noted that Audit results forwarded to relevant departments; queried how responses were managed? Suggested enhanced commentary around response to be included in future reporting to ARC.
- Debra Russell requested a separate brief to ARC on revaluation process - Page 90 Local Government 2015-16 Audit Snapshot.
- Debra Russell suggested report on status of Ombudsman's report as it relates to Surf Coast Shire Council eg. closed meetings.
- CEO agreed to do this and also report on complaints management.

Committee Resolution

MOVED Cr Clive Goldsworthy, Seconded Cr Margot Smith

That the Audit & Risk Committee receives and notes the various external agencies performance audit reports and identify any learnings for Council.

CARRIED

5. FINANCIAL REPORTS

5.1 Quarterly Financial Report - December 2016

Charter Reference: 9.6

Author's Title: Coordinator Management
Accounting

General Manager: Anne Howard

Department: Finance

File No: F16/1381

Division: Governance & Infrastructure

Trim No: IC17/141

Appendix:

1. December 2016 Quarterly Finance Report - Audit & Risk Committee (D17/15518)

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to present a Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity and Statement of Capital Works for the three months ending 31 December 2016.

The key financial results are as follows:

Year to date measure	Value (\$m)	Commentary
Total Comprehensive Result	30.90	\$7.41m favourable to YTD Budget
Capital Works expenditure	3.91	\$6.32m favourable to YTD Budget
Net Assets & Total Equity	483.26	\$62.32m favourable to YTD Budget
Cash & Cash Equivalents (including financial assets)	41.17	\$17.72m favourable to YTD Budget

Recommendation

That the Audit & Risk Committee receive and note the December 2016 Quarterly Financial Report.

Meeting Discussion

- January result and end of financial year results forecasts remain favourable to budget.
- Council undertook to provide copies of management reports to the committee in addition to Finance report already provided in future.

Committee Resolution

MOVED Ms Melissa Field, Seconded Cr Margot Smith

That the Audit & Risk Committee receive and note the December 2016 Quarterly Financial Report.

CARRIED

5.2 Program Status Report - October to December 2016 Quarter

Charter Reference: N/R

Author's Title: Manager Program Management Office **General Manager:** Phil Rowland

Department: Program Management Office **File No:** F17/189

Division: Environment & Development **Trim No:** IC17/129

Appendix:

Nil

Officer Direct or Indirect Conflict of Interest:

In accordance with Local Government Act 1989 –
Section 80C:

Status:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to receive and note the Program Status Report for the October to December 2016 quarter.

Background

The Program Management Office (PMO) has responsibility to provide leadership, support and analysis for best practice project management, including standardising and building Surf Coast Shire Council's project management capability and methods. The PMO has responsibility to support successful delivery of Council's program of projects with the right approach and level of resources.

The Program Status Report is intended to provide a high level analysis to Executive Management Team and Council on progress of the overall program of capital and operational projects, provide a point of accountability for project managers to provide accurate status information including time, cost and scope, and for project sponsors to identify how they are addressing any risks to project delivery.

Each project in the Program Status Report is reported on monthly by the relevant project manager for status, and therefore risk to time, cost and scope. Status is reported to Executive Management Team monthly, and to Council quarterly.

A spend target has been established for the 2016/17 program based on:

- The program allocation made by Council in the 2016/17 Budget
- PLUS carry forwards from 2015/16
- LESS
 - Multi-year project funding that is planned to be expended in future years
 - Projects awaiting outcomes, such as grant or project partners preparedness, or high external risk i.e. subject to VCAT
 - Project funding in the process of being accumulated
 - Land transactions
 - Project contingency (from 2016/17 onwards)

In 2016/17 projects are being reported 'Life to Date' therefore multi-year project reporting will include actual spend from years prior and future allocation per Council resolutions for the total project budget. Project budgets are reported excluding contingency. Contingency funds for each project are centralised in a separate account to be drawn on as requested by the project sponsor and reviewed / approved by the PMO.

Spend targets for the 2016/17 Program, including post-budget adjustments, were presented to Council on 6 September 2016. The difference between the 2015/16 year-end actual spend and 2016/17 target is detailed below, and shows a significant increase in the Program to be delivered:

5.2 Program Status Report - October to December 2016 Quarter

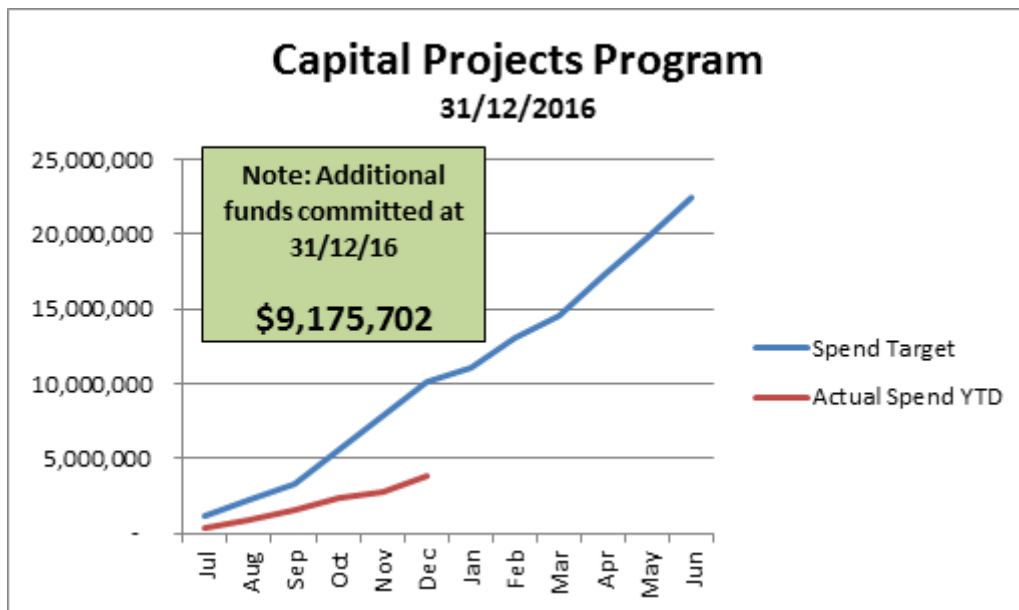
Program	Actual 2015/16 \$'000	Spend Target 2016/17 \$'000	Increase	
			\$'000	%
Capital	14,966	22,455	7,490	50.05
Operational	1,922	3,617	1,695	88.19
TOTAL	16,888	26,072	9,184	54.38

The quarterly profile for 2016/17 spend is based on historical trend:

Quarter	Percentage (%) of annual spend
June to September 2016	15
October to December 2016	30
January to March 2017	20
April to June 2017	35

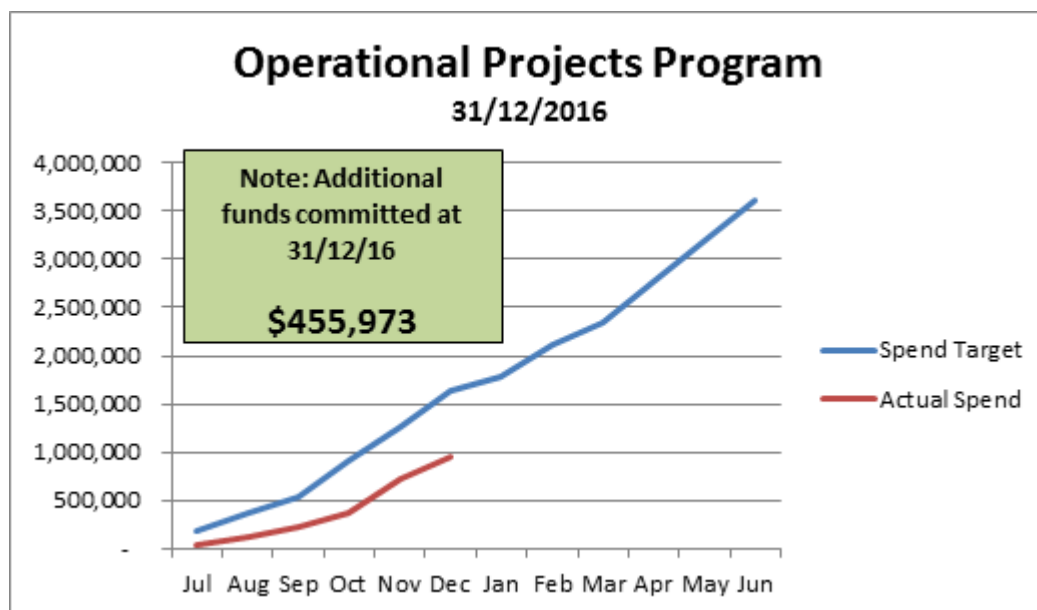
Discussion

Spend for the Capital Project Program at 31/12/16 was \$3,908,696 representing 39% of the projected Year to Date (YTD) spend of \$10,104,712 and 17% of the full year target of \$22,454,915. Spend target and actual spend YTD at 31/12/16 is presented in the graph that follows:



Spend for the Operational Project Program at 31/12/16 was \$962,774 representing 59% of the projected YTD spend of \$1,627,511 and 27% of the full year target of \$3,696,611. Spend target and actual spend YTD at 31/12/16 is presented in the graph that follows:

5.2 Program Status Report - October to December 2016 Quarter



The green boxes represent funds that have been committed by contract. This indicates the project has been mobilised however is not a direct indication of spend that is guaranteed in this financial year as some commitments are spread over multi-year projects.

The graphs indicate that spend is tracking below target. A number of initiatives have been undertaken to address this including:

- in line with Council's project management resourcing model, analysis of project management requirements for the program and recruitment of four additional project managers using project budget allocations made for this purpose
- confirmation of timing for significant project value (>\$200K) to confirm or re-profile the spend target
- using Sponsor Support Fund to provide support for 2016/17 project charter development where sponsors have significant project load
- using Sponsor Support Fund to provide support for 2017/18 project proposal development so that sponsors stay focussed on current program delivery
- continuing support from the Program Management Office to embed the Project Delivery Framework and ensure roles, accountability and responsibilities are clear
- targeted project health checks to identify where changes can be made to ensure project delivery.

Conclusion

The Program for 2016/17 is tracking behind targeted spend for the October to December quarter. A number of initiatives are in progress to work towards delivering projects including applying increased resources in line with Council's project management resourcing model.

Recommendation

That the Audit & Risk Committee note the Program Status Report for the October to December 2016 quarter.

Meeting Discussion

- Report taken as read.
- Committee sought advice regarding whether there were exposures due to slippage in program.
- There are no high risk programs that have grant obligations that won't be fulfilled
- Ongoing monitoring of risk i.e. major land fill projects – no risks in meeting obligations.

Committee Resolution

MOVED Ms Debra Russell, Seconded Cr Clive Goldsworthy

That the Audit & Risk Committee note the Program Status Report for the October to December 2016 quarter.

CARRIED

6. OTHER REPORTS

6.1 Fraud and Corruption Strategies

Charter Reference: 9.8.1

Author's Title: Manager Governance & Risk

General Manager: Anne Howard

Department: Governance & Risk

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC16/1369

Appendix:

Nil

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to provide an update in relation to fraud prevention strategies and programs, including training and development, and to update progress against the Fraud and Corruption Control Plan measures.

Report

The Surf Coast Shire Council (SCSC) has a robust ethical culture and prides itself on setting a high benchmark for fraud control and ethical work practices. SCSC has a Fraud Policy Statement which clearly articulates a zero tolerance stance in respect to dishonest or fraudulent behaviour, and underlines the Council's strong commitment to reducing the risk and incidence of fraud across its operations.

Strategy/ Program	General Update	Progress
Staff Code of Conduct	This is a first reference point and guide for all matters involving conduct and ethics and is intended to raise awareness amongst staff and contractors to enhance their understanding of their roles and responsibilities.	An updated Staff Code of Conduct was adopted in January 2016. A model clause in relation to ensuring child safety has been approved for inclusion.
Councillor Code of Conduct	The Councillor Code of Conduct sets out the standards of behaviour required by Councillors and explains the mechanisms for dealing with any alleged breaches of the Code, including internal and external routes. All Councillors have signed up to the Code and have received a copy their signed version.	As required in the Local Government Act, a review of the Code has been completed and the final version approved at a Special Council meeting on 24 January 2017.
Reporting	Staff learn how to report fraudulent activity during fraud training and at their induction. A process is in place to direct investigation of such complaints which could include internal or external investigation/reporting. Processes to protect those making protected disclosures are also in place.	A fraud checklist is circulated to Managers at the end of the financial year for them to report any fraudulent activity.

6.1 Fraud and Corruption Strategies

Strategy/ Program	General Information/Description	Progress
IBAC Mandatory Notification	New provisions came into operation on 2 December 2016 which require the CEO to report suspected or actual corrupt conduct to IBAC without delay.	See separate report in this agenda with draft process for discussion.
IBAC Ant-Corruption Campaign	IBAC has launched an anti-corruption campaign and provided materials to promote this message.	Council has used the materials to email all staff, post on the intranet and display posters around our workplace.
Council's Fraud Control Policy	<p>Fraud Control Policy and Procedure. This was developed with reference to the Australian Standard on Fraud and Corruption Control (AS 8001 – 2008).</p> <p>The Fraud Control Policy and Procedure covers:</p> <ul style="list-style-type: none"> Application Definitions Roles and Responsibilities Education and Awareness Control Planning Prevention Detection Response. 	<p>The policy was reviewed by the Audit and Risk Committee and Policy Review Sub-Committee and was adopted by Council at its meeting on 23 August 2016.</p> <p>The policy will be updated to include the mandatory reporting of suspected corrupt conduct to IBAC once the process is finalised.</p>
Fraud and Corruption Control Plan	<p>The Plan builds upon that work utilising the Commonwealth Fraud Control Guidelines 2011, AS/NZS ISO 31000 (2009) Risk Management – Principles and Guidelines, AS8001-2008 Fraud and Corruption Control.</p> <p>Council's key fraud and corruption control measures are as follows:</p> <p>Fraud and Corruption Control Plan. This was approved in August 2014 and identified Council's fraud risk areas using the risk matrix likelihood/consequence ratings.</p> <p>Risk Register. Fraud risks were transferred from the Fraud Plan by Managers into the risk register with the relevant treatment plans assigned. Managers continue to review those risks and the effectiveness of treatment plans and are prompted by the PAN system to do so (serious – at least monthly, high risk – at least 3 monthly, medium risk – at least 6 monthly and low risk – annually)</p>	Due for review in late 2017.

6.1 Fraud and Corruption Strategies

	<p>KPIs were also set for each risk area to allow measurement of any resultant fraudulent activity. In order to check the effectiveness of the controls, treatments and monitoring of KPIs, a questionnaire is sent out to managers at the end of the financial year requesting statistics relating to various types of fraud that may have occurred in their areas over the previous 12 months. This produced a nil return for FY14-15 and FY15-16.</p>	
Fraud awareness training	<p>The Governance team developed a fraud awareness training package which includes a conflict of interest training module. This is being rolled out to staff.</p>	<p>JLT will carry out fraud and cyber awareness training for the Leadership Group in March.</p> <p>To date, 55 staff members have received the training which is ongoing.</p> <p>Currently investigating an online version of this training through Council's i-Learn system to maximise coverage.</p>
Protected Disclosure Policy	<p>The Protected Disclosure Policy, which provides a mechanism to report fraudulent activity, was reviewed in light of the IBAC audit, and the updated, more user-friendly version communicated to the organisation via email and the Shire Wire.</p> <p>A copy is also available on the website for the community, along with guidelines.</p> <p>There have been no protected disclosures relating to Council in the previous 12 month period.</p>	<p>Council's policy and guidelines were adopted in 2014 and remain current.</p>
Procurement	<p>A centre-led model has been introduced and work continues to standardise templates, develop training resources and check processes to ensure compliance and transparency. Council's Procurement Policy is reviewed every financial year.</p> <p>Conflict of interest declarations are a standard requirement during the tendering process.</p>	<p>Procurement Officer has refined the procurement process through development of specific quotation documents for goods, services, consultancies etc, review of the Procurement Policy in 2016, development of training, development of standard terms and conditions for dealing with Council, changes to quotation thresholds to ensure the most effort and attention are given to purchases at the mid to high range ie over \$10,000.</p> <p>A procurement page with links to relevant documents and training materials has been set up on the Intranet.</p> <p>Council is also working with the MAV</p>

6.1 Fraud and Corruption Strategies

		<p>LEAP program to identify efficiencies and savings in its operations.</p> <p>Collaborative tendering opportunities are also being explored eg bitumen with local councils and cleaning with GORCC.</p>
Internal Controls	<p>Council has a number of internal controls and audit functions in place to minimise the opportunity for fraud to take place. These include separation of duties in Finance, spending limits, cash handling procedures, authorisation processes, checking mechanisms, checklists, delegations of authority, access controls, passwords, internal and external audit.</p>	<p>Controls relating to purchasing were found to be inadequate and posed a fraud risk.</p> <p>This was addressed through implementation of a manual process which now prevents changes to the purchase order following authorisation.</p> <p>An internal audit process is underway.</p> <p>Included in Council's risk register.</p>
Use of Equipment and Resources	<p>An internal audit was completed last year following the release of IBAC's 2015 report into corrupt conduct at council depots.</p>	<p>As a result of the audit small plant and equipment is being barcoded and a register developed.</p>

Recommendation

That the Audit & Risk Committee receives and notes the Fraud and Corruption Strategies report.

Meeting Discussion

- Chair commented that this is a good way to present summary.
- Fraud and Corruption awareness training to be developed in iLearn for all staff including outdoor workers.
- Improvements in Procurement process include:
 - Intranet site
 - Templates
 - Training package

Committee Resolution

MOVED Mr John Gavens, Seconded Ms Debra Russell

That the Audit & Risk Committee receives and notes the Fraud and Corruption Strategies report.

CARRIED

6.2 Key Audit Themes 2015-16

Charter Reference: 9.10

Author's Title: Manager Governance & Risk

General Manager: Anne Howard

Department: Governance & Risk

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC17/43

Appendix:

Nil

Officer Direct or Indirect Conflict of Interest:

In accordance with Local Government Act 1989 –
Section 80C:

Status:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

This report has been tabled at the Chair's request to provide an opportunity for Audit and Risk Committee members to discuss VAGO's key audit themes from last year.

Discussion

Earlier this year, VAGO launched the 2015-16 *Key Audit Themes*. This resource offers a summary of common findings from the 39 audit reports were tabled in Parliament over the year, across the areas of:

- governance and oversight
- effective leadership
- managing information
- implementation and delivery
- measuring and reporting performance
- monitoring and managing risks to financial sustainability
- stakeholder engagement.

The direct link below allows access to this resource:

http://www.audit.vic.gov.au/reports_and_publications/key_audit_themes.aspx

The *Themes* cover areas likely to be broadly relevant to agencies within the Victorian public sector and can provide useful insights to agencies when they are planning programs, identifying risks and seeking to improve their performance. Some themes have continued from previous years, as they are areas VAGO look at frequently such as financial sustainability, managing information and performance reporting. Some are unique to 2015-16 such as stakeholder engagement and the need for effective leadership. VAGO noted a noticeable rise in the percentage of positive findings.

To help agencies make use of this resource, VAGO include self-assessment questions for each theme, based on the criteria used in their audits and are encouraging self-assessment of performance, governance, systems and operations against the common challenges identified in our key audit themes.

The audit themes have been shared with the Leadership group to assist with planning, management of risk and development of processes/systems.

Recommendation

That the Audit & Risk Committee notes VAGO's key audit themes for 2015-16.

Meeting Discussion

- Chair suggested Committee members view link provided.

Committee Resolution

MOVED Mr Brian Keane, Seconded Cr Margot Smith

That the Audit & Risk Committee notes VAGO's key audit themes for 2015-16.

CARRIED :

6.3 Mandatory Reporting to IBAC

Charter Reference: 9.10

Author's Title: Manager Governance & Risk

General Manager: Anne Howard

Department: Governance & Risk

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC17/144

Appendix:

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to provide a summary of the requirement to notify IBAC of suspected corrupt conduct and an opportunity for the Committee to provide feedback on the draft process which is being developed to process such notifications.

Mandatory Notifications to IBAC

Effective from 2 December 2016 the CEO must notify IBAC of any matter they suspect on reasonable grounds to involve corrupt conduct that is occurring or has already occurred.

The CEO's duty to notify IBAC cannot be delegated.

Notifications made in good faith protect the CEO from any criminal or civil liability even if the suspicion on which the report is based turns out to be untrue or unsubstantiated.

Definitions

Corrupt conduct is conduct, or an attempt or conspiracy to engage in conduct that:

- adversely affects the honest performance of the functions of a public officer (any staff member, contractor or Councillor) or public body (Council)
- constitutes or involves the dishonest performance of the functions of a public officer or public body
- constitutes or involves knowingly or recklessly breaching public trust
- involves the misuse of information or material acquired in the course of the performance of the functions of a public officer or public body
- is intended to adversely affect the effective performance of the functions or powers of a public officer or public body and results in the person or their associate obtaining a specified benefit.

In order for conduct to be corrupt conduct, it must constitute a relevant offence against any Act, or the common law offences of attempt to pervert the course of justice, bribery of a public official, perverting the course of justice and misconduct in public office.

Examples of misconduct in public office include:

- deliberately falsifying accounts to conceal or obtain a benefit
- entering into a secret commission or profit sharing arrangement with another person
- colluding to share profits with tender recipients and concealing the overvaluation of tenders
- using public office to deceive a member of the public to gain a financial advantage
- misusing power to harm, oppress or disadvantage a person.

Reasonable grounds for suspicion

'Suspicion' must be based on facts and circumstances that would be sufficient for a reasonable person to suspect corrupt conduct had occurred or was occurring. Proof is not necessary, nor is it required that an individual or individuals be identified.

6.3 Mandatory Reporting to IBAC

When must a report be made?

Notifications must be made as soon as practicable after the CEO has formed a reasonable suspicion that corrupt conduct may have occurred or may be occurring. There must be no delays in notifying suspected corrupt conduct to IBAC.

Actions by relevant principal officers before or after notification to IBAC

No action should be taken by the relevant principal officer to address the matter being reported until IBAC has assessed the matter and informed the CEO of its decision. Exceptions apply where the action is:

- necessary to lessen or prevent a serious threat to the life, health, safety or welfare of an individual or to public health or safety
- taken to comply with another legal obligation, such as a duty to report the matter under other legislation
- reporting the matter to Victoria Police.

Interaction with the Protected Disclosure Act 2012

The Protected Disclosure Act 2012 requires certain agencies to notify IBAC where they receive a disclosure that they consider may be a 'protected disclosure'. There may be overlapping obligations under the PD Act the duty to notify IBAC where they receive a disclosure alleging corrupt conduct.

The mandatory notification form for the CEO to complete is available at www.ibac.vic.gov.au and will be completed by the Panel/CEO for submission to IBAC.

Confidentiality in notifications

Notifications to IBAC are made without advising the person(s) to whom the notification relates, and without publicity. All notifications of suspected corrupt conduct to IBAC will be treated in the strictest confidence. Failure to handle notifications to IBAC confidentially may prejudice any subsequent investigation, whether by IBAC or the public sector body concerned, and may cause unnecessary reputational or other damage to individuals.

Awareness

Copies of the IBAC's promotional materials have been sent out to all staff by email, posted on the Shire Wire and included in the Councillor Digest with a request to notify the CEO, GM Governance and Infrastructure or Manager Governance and Risk of any suspected corrupt conduct.

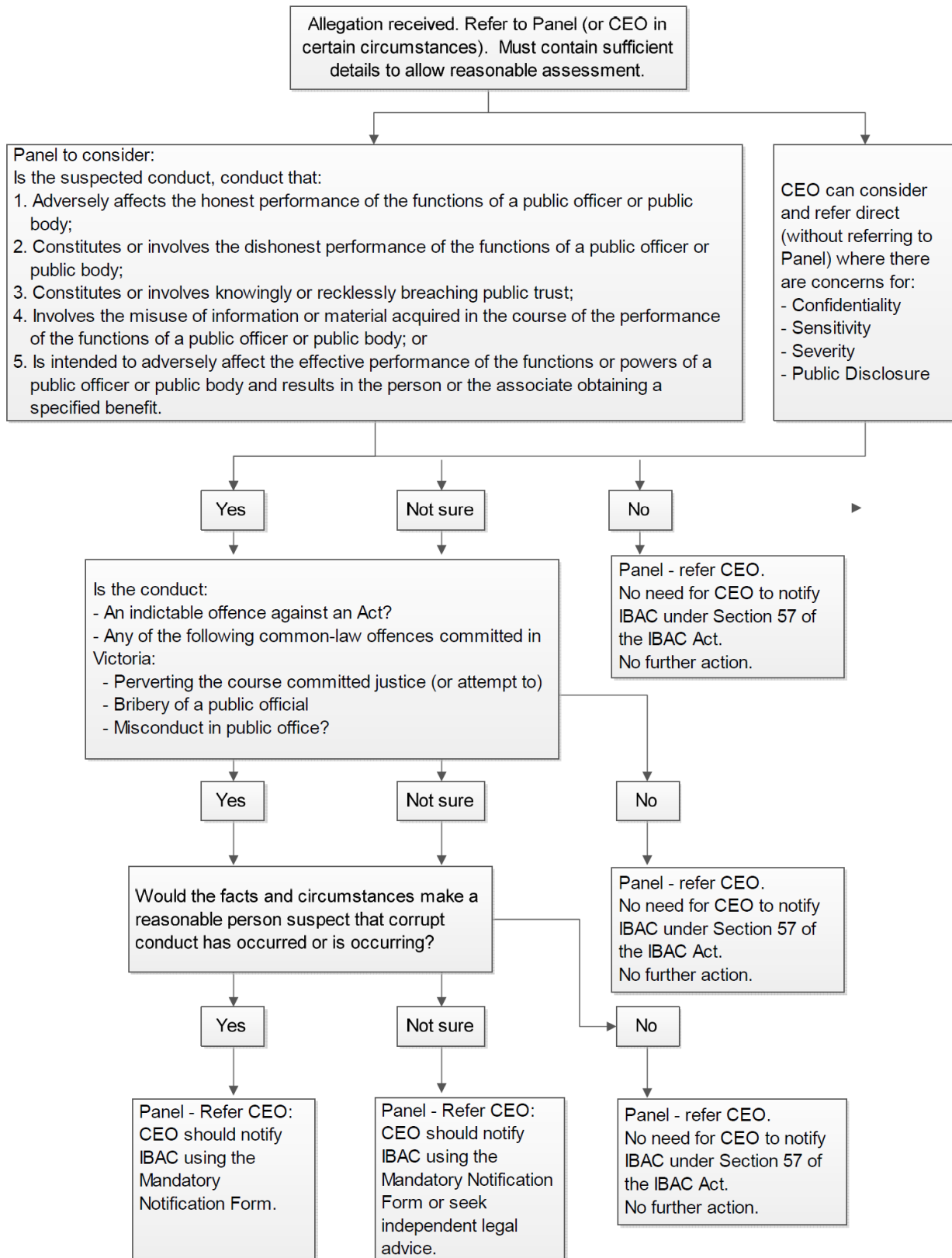
Surf Coast Shire Council's proposed process – See flowchart below.

A Panel consisting of the General Manager Governance and Infrastructure, Manager Governance & Risk and the Manager People & Culture will be set up to consider notifications.

- staff should bring any concerns or reports of suspected corrupt conduct quickly and confidentially to the attention of any Panel member before any action is taken. (The CEO can directly report any matter to IBAC without any discussion with Panel members in certain circumstances eg where confidentiality and sensitivity are an issue)
- managers should err on the side of caution when deciding whether to notify the Panel of the matter
- the Panel will convene to hear the suspicions and decide whether to recommend that the CEO notifies IBAC. The Panel will develop criteria to assist this process, using IBAC's materials as a guide. No investigations or other enquiries will be made
- all matters will be referred to the CEO with a recommendation from the Panel whether to notify IBAC or not
- where the CEO decides to report, the IBAC template form will be completed and submitted under the CEO's signature
- as advised by IBAC, the person(s) suspected of corrupt conduct will not be notified
- the Leadership Group will receive a presentation providing an overview of the process and mechanism for reporting. All other staff will be notified at team meetings, by email and the Shire Wire
- the process will be included in the Fraud & Corruption Control Policy and Plan.

6.3 Mandatory Reporting to IBAC

Process for Determining Mandatory Notifications to IBAC



Judgment may sometimes be required in determining if something is or is not corrupt conduct or is a relevant offence as it may not be clear-cut. It will always depend on the particular facts and circumstances of a case. Panel or CEO to seek independent legal advice if needed. If in doubt, submit a notification to IBAC for their assessment.

6.3 Mandatory Reporting to IBAC

Recommendation

That the Audit & Risk Committee notes and provides feedback on the suggested notification process.

Meeting Discussion

- Feedback on flowchart was positive.
- Councillors have no role in management of the process , but can report suspected corrupt conduct direct to CEO or IBAC.

Committee Resolution

MOVED Ms Melissa Field, Seconded Mr John Gavens

That the Audit & Risk Committee notes and provides feedback on the suggested notification process.

CARRIED

6.4 Future Role of Audit and Risk Committees - Local Government Act Review

Charter Reference: 9.10

Author's Title: Manager Governance & Risk

General Manager: Anne Howard

Department: Governance & Risk

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC17/94

Appendix:

Nil

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to provide an opportunity for the Audit and Risk Committee to review and discuss comments made by Council in its submission to the Local Government Act Review Directions Paper in relation to the future role of Audit and Risk Committees.

Discussion

Council submitted its response to the Local Government Act Directions Paper in September 2016. The following is a summary of the submission as it related to items affecting the future role of Audit and Risk Committees.

Direction 15 proposes to:

Require the audit and risk committee to monitor and report on a council's performance against the remuneration policy.

Do you support this direction?

No

What other comments would you make for this proposal?

Council's compliance with its Remuneration Policy would better be considered by a CEO Employment Matters Committee than the Audit and Risk Committee.

Direction 95 proposes to:

Require all councils to establish an audit and risk committee with an expanded oversight of:

- the integrated strategic planning and reporting framework and all associated documents
- financial management and sustainability
- financial and performance reporting
- risk management and fraud prevention
- internal and external audit
- compliance with council policies and legislation
- service reviews and continuous improvement
- collaborative arrangements
- the internal control environment.

Do you support this direction?

In part

What other comments would you make for this proposal?

Oversight of service reviews and continuous improvement should not be within the scope of the Audit and Risk Committee. This is within the responsibility of Council and the Executive, and the proposed scope is inconsistent with corporate practice.

6.4 Future Role of Audit and Risk Committees - Local Government Act Review

Direction 96 proposes to:

Require the audit and risk committee to include a majority of independent members and include councillors, but not council staff.

Do you support this direction?

Yes

What other comments would you make for this proposal?

Current practice at Surf Coast Shire Council.

Direction 97 proposes to:

Require the audit and risk committee to report to the council biannually and require each council to table the biannual audit and risk committee report at a council meeting.

Do you support this direction?

Yes

What other comments would you make for this proposal?

Currently report through an annual report, minutes included in agenda and attendance at Council briefings as required.

Direction 107 proposes to:

Require the audit and risk committee to review compliance with the procurement policy and require a council to report in its annual report any non-compliance with its procurement policy.

Do you support this direction?

Yes

Direction 112 proposes to:

Require the audit and risk committee to review compliance with the investment policy and require a council to report any non-compliance with its investment policy in its annual report.

Do you support this direction?

Yes

What other comments would you make for this proposal?

Current practice at Surf Coast Shire Council.

Direction 114 proposes to:

Require the audit and risk committee to review compliance with the debt policy and require a council to report any non-compliance with its debt policy in its annual report.

Do you support this direction?

Yes

Recommendation

That the Audit & Risk Committee note Council's submission to the Local Government Act review in so far as it applies to the future role of Audit and Risk Committees.

Meeting Discussion

- Report taken as read.
- Submission to local Government Act noted.
- Expected to be statute by end of 2018.

Committee Resolution

MOVED Mr John Gavens, Seconded Cr Margot Smith

That the Audit & Risk Committee note Council's submission to the Local Government Act review in so far as it applies to the future role of Audit and Risk Committees.

CARRIED

7. ADMINISTRATIVE MATTERS

7.1 Transition to New Internal Audit Contract March 2018

Charter Reference: 9.2

Author's Title: Manager Governance & Risk

General Manager: Anne Howard

Department: Governance & Risk

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC17/95

Appendix:

Nil

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The purpose of this report is to provide an overview of Council's plans to ensure a smooth transition to the new internal audit contract when the current contract expires on 31 March 2018.

Discussion

Council's current contract with Grant Thornton to provide internal audit services expires on 31 March 2018.

It is therefore intended that Council will plan to ensure a smooth transition to a new contract with minimal disruption to the reviews that are scheduled to be carried out in 2018.

Development of the strategic audit plan for the 2017/18 financial year is due to be discussed at the Audit and Risk Committee meeting in May 2017, with preliminary work having been already carried out by Grant Thornton in 2016 to align a three-year plan with our strategic risk exposure through assurance mapping. Once the 2017/18 Plan has been agreed with EMT it will be Council's intention to ensure at least three audits are conducted by Grant Thornton in 2017/18 and reports finalised before the contract ends.

The process for inviting quotations for continuance of the contract after 31 March 2018 will commence in November 2017 to ensure this is completed and a contract in place when the current contract ends.

The new audit provider will be apprised of Council's strategic annual audit plan and requested to continue to deliver the reviews identified. It is estimated that at least one full review could be completed between 1 April and 30 June 2018, before a new plan kicks in.

Council will work with the new provider to establish a strategic audit plan for 2018/19 which will be discussed at the Audit and Risk Committee meeting in May 2018.

Recommendation

That the Audit & Risk Committee notes Council's plans to ensure a smooth transition to the new internal audit contract when this commences in April 2018.

Meeting Discussion

- Report noted.
- Plan in place to manage reviews when new contract awarded in April 2018.

Committee Resolution

MOVED Cr Margot Smith, Seconded Ms Melissa Field

That the Audit & Risk Committee notes Council's plans to ensure a smooth transition to the new internal audit contract when this commences in April 2018.

CARRIED

7.2 Next Meeting Date and Proposed Agenda

Charter Reference: 9.10.2

Author's Title: Team Leader Governance

General Manager: Anne Howard

Department: Governance & Risk

File No: F17/145

Division: Governance & Infrastructure

Trim No: IC16/1335

Appendix:

Nil

Officer Direct or Indirect Conflict of Interest:

Status:

In accordance with Local Government Act 1989 –
Section 80C:

Information classified confidential under Section 77
of the Local Government Act:

Yes

No

Yes

No

Reason: Nil

Purpose

The next meeting scheduled to be held on **Tuesday, 16 May 2017 from 9.00 – 11.30am.**

The proposed Agenda outline for this meeting is as follows:

- Chief Executive Officer's Update
- Outstanding Issues & Actions
- Presentations
- Business Improvement Update
- Financial Reports
 - Quarterly Financial Report
 - Program Management Report
- Risk Management
 - Enterprise Risk Management Report
 - Workplace Health and Safety Report
- Audit Reports
 - Internal Auditors Update (Grant Thornton)
 - External Audit Update (VAGO) including Audit Scope 2017/18
 - Performance Audit Reports – External Bodies
 - Review Strategic Annual Internal Audit Plan
- Other Reports
 - SCS-016 Investment Policy
 - SCS-014 Workplace Health & Safety
 - MPP-040 Protected Disclosures
 - MPP-043 Freedom of Information
 - MPP-005 Privacy and Data Protection
 - Compliance Report
 - Annual Work Plan
 - Annual Report Gifts Register, Councillor Entitlements and Education
- Administrative Matters
 - Next Meeting Date & Proposed Agenda Outline

Recommendation

That the Audit & Risk Committee note the proposed agenda outline for the next meeting to be held on Tuesday, 16 May 2017 from 9.00 - 11.30am.

7.2 Next Meeting Date and Proposed Agenda

Meeting Discussion

- Additions for May agenda
 - Report on transparency in decision making – Ombudsman's report
 - Long Term Financial Plan and Draft budget.
 - Update on Budget.
 - Update Council Plan.
 - Asset Policy.
 - Copy of letter to Grant Thornton.
- Cr Margot Smith will be an apology next ARC meeting – 16 May 2017.

Committee Resolution

MOVED Mr Brian Keane, Seconded Cr Clive Goldsworthy

That the Audit & Risk Committee note the proposed agenda outline for the next meeting to be held on Tuesday, 16 May 2017 from 9.00 - 11.30am.

CARRIED

8. CLOSED SECTION

Nil

Close: There being no further items of business the meeting closed at 11.19am.