

NILLUMBIK SHIRE COUNCIL
AUDIT COMMITTEE CHAIRPERSON'S REPORT
FOR THE 2016/2017

FINANCIAL YEAR

INTRODUCTION

The Nillumbik Shire Council Audit Committee (the Committee) is an independent Advisory Committee to Council established under Section 139 of the Local Government Act 1989 (as amended) (the 'Act').

The Committee's Terms of Reference require that an Annual Report on the activities of the Committee be presented to Council at the conclusion of each financial year. It is with pleasure that I submit the 2016/2017 Audit Committee Annual Report for the consideration of Council.

The key purpose of this Report is to provide you with an overview of the Audit Committee's primary functions; activities and outcomes for the 2016/2017 financial year.

AUDIT COMMITTEE'S TERMS OF REFERENCE

The Audit Committee has several functions, determined by the Council, and are based on the Victorian Local Government Best Practice Guidelines and are incorporated in its terms of Reference. In summary they are to:

- assist Council in the effective conduct of its responsibilities for financial reporting, management of risk, maintaining a reliable system of internal controls and facilitating good and ethical governance
- assist the coordination of relevant activities of management and internal and external audit
- facilitate effective assessment and management of risks of the Council's and Community's assets
- facilitate compliance with laws and regulations and best practice guidelines
- ensure that an effective and efficient internal and external audit system is maintained by monitoring internal controls and reviewing relevant policies.

COMMITTEE MEMBERSHIP

The membership of the Committee comprises five members – two Councillors and three external, independent members. Committee Membership throughout 2016/2017 was as follows:

Ms Linda MacRae (Chairperson and Independent Member) and Mr John Watson (Independent Member). In August 2016 the Committee welcomed Mr Greg Hollyman, who replaced Mr Roger Male, as its new Independent Member. With the election of a new Council in October 2017, Councillor representation on the Committee also changed with the Mayor Cllr Peter Clarke and Cllr Bruce Ranken replacing Cllr Ken King

and Cllr Meralyn Klein. Cllrs King and Klein had been long serving members of the Committee who provided a valuable contribution to it.

The Committee is supported by the Council's capable and professional Senior Management Staff to provide advice on a range of compliance; control and operational matters. Management also assists the Committee to function effectively by adding value to control processes and systems. Although there have been several Executive staff changes during the past year, the Committee continues to benefit from the advice of senior staff who are committed to ensuring that the Committee meets its stated objectives. These staff include the Chief Executive Officer (past and present); the former General Manager Corporate Services; the Finance Manager; the Financial Accountant and the Risk Advisor. Other Senior Staff have supported the Committee as required.

AUDIT FUNCTIONS

The Audit Committee continues its maturing robust audit program with the emphasis on value added, continuous improvement outcomes to assist the Council in addressing financial; strategic and operational risks and also ensuring that Council maintains a reliable system of internal controls. The Committee's work plans are based around the Internal and External functions. Internal audit reviews are structured so that there is a balance of compliance; internal control and operational audits to enable the Committee to fulfil its obligations under its Audit Terms of Reference.

EXTERNAL AUDITORS

In accordance with the Victorian *Local Government Act 1989*, Council's External Auditor is appointed by the Victoria Auditor General (VAGO). For the 2016/2017 financial year VAGO's contracted Agent, HLB Mann Judd undertook the external audit.

INTERNAL AUDITORS

Council's Internal Auditor is Crowe Horwath which is a highly experienced and professional local government auditing firm. During the 2016/2017 financial year Crowe Horwath completed its tenth year as Nillumbik's Internal Auditors.

ACCOUNTABILITY; GOVERNANCE AND COMPLIANCE

In order to improve the governance processes of accountability; compliance and transparency, in addition to this Annual Report, the Audit Committee submits the Minutes of each of its Meetings to the next available Council Meeting.

The Committee also seeks information from the Chief Executive Officer at each Audit Committee Meeting regarding any breaches or non compliance issues since the last meeting. The Internal Auditor is also required to formally advise if their work had been impeded in any way during the conduct of their audits.

MEETINGS

During the 2016/2017 financial year the Committee met on four occasions:

- 15 August 2016
- 12 December 2016
- 13 February 2017
- 8 May 2017

At these Meetings the Committee considered the following:

(i) INTERNAL AUDITS – REVIEWS OF :

- Follow up of High Risk Matters raised in prior internal audit reports
- Parks and Gardens - Tree Management
- Leisure Centres Management
- Parking Enforcement
- Various Financial Functions (Accounts Payable; Procurement; Accounts Receivable and Rates)

Each of the internal audit reports provided detailed recommendations in relation to any risks identified. These risks are rated as high; medium or low and are discussed at length at the Audit Committee meetings to ensure that the Audit Committee Members are comfortable and confident that the audit recommendations are responded to and that proposed management actions adequately address the identified risks. An action plan is agreed upon. The Audit Committee has monitored the implementation of these recommendations and actions at each subsequent Audit Committee to ensure that the recommended and agreed audit initiatives are carried out, thus assisting in improving Council's procedural and control environments. This ongoing monitoring also ensures that Council's risk exposure in many areas is brought to the Committee's attention and that there is a management framework to address such issues.

The Audit Committee also monitors the progress of the Internal Audit Plan at each meeting, with the Internal Auditor presenting a report on the status of this Plan and discussing progress. The relevance and appropriateness of the three year Strategic as well as the Annual Internal Plan is also regularly reviewed to ensure that it meets the needs of the dynamic and challenging Local Government environment. This also ensures that resources are effectively managed. Such an example is the prevention of duplication if another body (such as VAGO or the Ombudsman) propose to undertake a specific Industry Audit that may be similar to an audit that Nillumbik was proposing, the Committee and Management ensures that the internal audit program is adjusted

accordingly and that we respond to the recommendations of the Industry audit.

(ii) EXTERNAL AUDIT

Extensive liaison was held with the external auditors (HLB Mann - VAGO Contractor's) in respect of the 2015/2016 financial statements, culminating with the Audit Committee, at its Meeting on 15 August 2016, endorsing the draft General Purpose Financial and Standard and Performance Statements to Council for submission to Council for adoption 'in principle'. The audit results were positive with all relevant accounting disclosures made with unqualified audit opinions received from the Auditor General. These Statements were submitted to the Victorian Local Government Minister by 30 September 2016 as required.

The Committee met also met with HLB Mann Judd at its Meeting in May 2017 to discuss the strategy of the proposed external audit for the 2016/2017 financial year. This strategy outlines the mandate from the Auditor General for the financial year and provides details of any specific issues that the Auditor General wishes his agents to address during the audit. The 2016/2017 external audit has concluded and it is anticipated that a clear audit opinion will be issued by the Auditor General.

(iii) MANAGEMENT REPORTS

The Audit Committee is a productive and robust Committee with Members who have a diverse range of experience and skill sets who can provide objective advice in an advisory capacity to the Council. In order to provide such advice, the Committee receives a range of Management Reports throughout the year, incorporating the following:

- Council's Quarterly Finance Reports - The Committee receives Council's quarterly financial reports. These reports are very comprehensive and provide assurance to the Committee that Council is adequately advised of its financial situation so that Council can make informed decisions. The Committee is also kept informed of the status of the annual Budget as well as other important financial information. The Committee is also assured that Council's financial management practices are robust and meet legislative and stewardship requirements.
- Procurement Policy Compliance - This report includes important information regarding compliance with Council's Procurement Policy as well as details about current and proposed Contracts.
- Status of the implementation of outstanding audit reports - This report is a monitoring tool that tracks the implementation of any outstanding audit recommendations with a clear path forward being outlined.

- Rate Arrears - A report outlining high level details regarding Councils' rate arrears is considered that provides assurance that these outstanding debts are being managed appropriately.
- Risk Management and Insurance – The Committee provides an active oversight of Council's risk management framework by considering regular reports on these issues to ensure that Nillumbik's exposure to strategic and operational risks are being managed appropriately. The Committee also receives reports and statistics relating to Insurances and Occupational Health and Safety (OH & S.) The 'Risk Register Report' provides vital information on Council's major risks including the risk rating, prior to and after the control assessment and control actions. This ensures that the Committee is informed of the status of how Council is managing its identified risks.
- Alerts on any impending legal action, legislation breaches or fraudulent activity. The Victorian Local Government Act is still under review. Industry consultation continues. The new Act may require the Audit Committee to take additional actions regarding some of Council's functions. Any additional Audit Committee requirements will be added to the Committee's Terms of Reference and acted upon.
- At its February 2017 meeting the Committee considered VAGO's 2015/16 Audit Results. There were three main recommendations from VAGO for Councils' to consider. These related to the prompt attention by Councils' in addressing matters raised by VAGO in previous audits; Councils' to review their asset valuation frameworks and for Councils' to ensure that their asset register are accurate and reconciled with asset management systems. The Committee was provided with a detailed report outlining Nillumbik's responses to, and compliance with, these VAGO recommendations.
- The Committee receives a copy of Council's Budget and Strategic Resource Plan. This ensures that the Committee is aware that Council continues to operate in a financial framework that is achievable in the current economic climate that provides ongoing financial stability and sustainability.
- The Committee considered reports relating to the Staff and Councillors Gift Register; Council's proactive tree management program; the Independent Broad-Based Anti Corruption Commission (IBAC) Report on the Review of Councils' Work Depots and the Essential Services Commission Compliance with the 2017/17 Rate Capping requirements and the Nillumbik Planning Scheme Amendment C101.
- During the year Committee considered the reviews of several Policies' Procedures and Guidelines including those relating to Bank Guarantee's; and Procurement. These Policies; Procedures and Guidelines were comprehensively reviewed by

Management to more accurately reflect better practice and improve the control processes and procedures involved.

2017/2018 OUTLOOK

In 2017/2018 the Audit Committee will continue its work with the Internal Audit program including comprehensive reviews of several critical areas, including the Native Vegetation Offset Program; Living and Learning Centres; Records Management; Depot Management and various Financial Controls. These reviews result from the three year Internal Audit Strategic Plan that was reviewed in May 2017 to ensure that it addressed the most current compliance; internal control and operational audit requirements of the Council.

The Audit Committee will conduct meetings with the external auditor in relation to the Financial and Performance audits and give formal consideration to the Financial and Performance Statements.

The Committee will continue to monitor any applicable matters raised by the Victorian Auditor General; Victorian Ombudsman, the Local Government Investigations and Compliance Inspectorate; the Independent Broad-based Anti-Corruption Commission or the Office of the Victorian Inspectorate.

The Committee will take an active interest and stay informed on proposed changes to the Local Government Act 1989 particularly in relation to the proposed directions of expanding the scope and role of Audit Committees

CONCLUSION

In summary, the 2016/2017 year was again a very productive year with the Audit Committee considering a large range of reports and issues relating to Council's reporting, accountability, control and risk management objectives and obligations.

As outlined in this report, I believe the Audit Committee continues a valuable oversight role relating to Council's financial, governance, and risk control environments and associated systems to ensure that adequate control frameworks are in place so that Council operates within a best practice framework that maintains an environment to identify and mitigate risks.

It is a very robust Committee and through the diverse experience and knowledge of its members can test assumptions and make recommendations that add value to Council's operations.

On behalf of all Audit Committee members, I would like to express sincere thanks to the Staff of HLB Mann Judd for their work in the conduct of the external audit, and to the Internal Auditor Crowe Horwath for their significant contribution into the internal audit program where business improvement recommendations were made which will

ensure that Council's internal controls and processes are continually improved.

I particularly wish to thank Council's Chief Executive Officer, Mr Mark Stoermer and the former CEO Mr Mr Stuart Burdack; the former General Manager Corporate Services, Mr Andrew Port; the Finance Manager Mr Vince Lombardi and the Financial Accountant, Mrs Melika Sukunda and the Risk Advisor, Craig Commane for their support, professional advice and focus on achieving continuous improvement outcomes. I also extend the Committee's thanks to all the Council Officers who have assisted the Audit Committee in a professional manner during the year.

I thank all my fellow Audit Committee Members Councillors and External Members for their participation, diligence, professionalism and contribution throughout the 2016/2017 financial year. We look forward to the continuation of a very strong working relationship with the Council and staff during the 2017/2018 financial year.

I commend this Audit Committee Annual Report to the Council.

Yours faithfully,

Ms LINDA MACRAE
Independent Audit Committee Chairperson