



# **ATTACHMENT 12.3**

## **Advisory and Special Committee Reports**

### **Mansfield Audit and Risk Advisory Committee**

**(35 PAGES)**



# MANSFIELD SHIRE COUNCIL

## Audit and Risk Advisory Committee

The Audit Advisory Committee shall meet quarterly to discuss matters including the following:

- August:** Review draft annual financial accounts and performance statements. Consider the initial findings of the external auditor.
- November:** Review the final results of the Annual Audit and any reports from the external auditor. Annual review of Procurement Policy.
- February:** Review the progress of the internal audit program. Review of Management Letter and Review of Progress Report on Policy Review Project. Review of 6 monthly Performance Indicators.
- May:** Review the current year and determine the next financial year annual internal audit program.

# MINUTES

## Unconfirmed

**21 May 2018**  
MANSFIELD SHIRE OFFICE  
33 Highett Street, Mansfield

**4.30 pm meeting for Committee.**  
Council Officers will be attending  
from 5.00 pm

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# AGENDA

21 May 2018  
MANSFIELD SHIRE OFFICE  
33 Highett Street, Mansfield  
4.30PM

4.30 pm meeting of the Committee.  
Council Officers will be attending from  
5.00 pm

## 1. OPENING OF THE MEETING

Janene Ridley opened the meeting at 5.00 pm.

### PRESENT

#### External Members:

Ms Dannielle MacKenzie  
Ms Janene Ridley

#### Councillors:

Cr Harry Westendorp

### IN ATTENDANCE

#### Chief Executive Officer:

Alex Green

#### Finance Manager:

Mandy Kynnersley

#### Johnsons MME – External Auditor

Ryan Schischka

#### AFS & Associates Pty. Ltd –

#### Internal Auditor

Brad Ead

Items 7.4, 8.2 and 8.3 were considered first and then Ryan Schischka left the meeting at 5.55 pm.

## 2. APOLOGIES

Cr. Paul Volkering  
Rob Bennett

## 3. CONFIRMATION OF MINUTES

### D. MacKenzie/H. Westendorp:

That the Minutes of the Audit and Risk Advisory Committee Meeting held on 19 February 2018 be confirmed as an accurate record.

Carried

## 4. DISCLOSURE OF CONFLICTS OF INTEREST

Nil



## 5. OUTSTANDING ACTIONS

Date	Action	Due Date	Comment
20 November 2017	6.1 Risk Management Procedures – 10954: Update to say ‘electronic’ system - RMO		Completed.
19 February 2018	7.1 Internal Audit and Control <ul style="list-style-type: none"> <li>• FM to include change of estimated completion dates in comments.</li> <li>• CEO and FM to review Internal Audit Schedule and recommend topics for 2018-2019 at May Audit and Risk Advisory Committee meeting.</li> </ul>		Communicated to EMT and should be happening going forward.  Completed. Discussed with Internal Audit partner Brad Ead and will be presented at the May meeting.
	7.3 – Draft Fraud Prevention and Control Policy FM to make the following changes: <ul style="list-style-type: none"> <li>• Page 3 – Refer to IBAC reporting requirements under “CEO” responsibilities</li> <li>• Page 8 – 5.1.1 include specific reference around how to report suspicion of CEO fraud to Corporate and Organisational Development Manager.</li> </ul>		Completed. Endorsed by Council.  Done. Endorsed by Council.
	8.1 – Finance and Performance Reports Amend the column headings from 2016-17 to be 2017-2018		Completed.
	8.2 – VAGO Management Letter Issues Update OMNI item on related parties to include ‘or upon resignation’ in the comments.		Completed.



## 6. RISK MANAGEMENT

Duties and responsibilities of the Committee:

- Review the operations and implementation of the identification and assessment of risks, management of the identified risks, monitoring of the risk management process and referring risk matters to the Council as appropriate.
- Review key policies impacting on Council's governance framework, such as Code of Ethics, Fraud Policy, Whistleblower Policy, Procurement Policy, Investment Policy.
- Monitor processes and practices of Council to ensure effective business continuity, including a disaster recovery plan which is periodically tested.
- Note the progress of any major litigation, including potential VCAT cases.
- Note any investigation of any suspected cases of fraud.

### 6.1 Risk Management Procedures and Top Five (5) Risks

**File Number:** E3937  
**Responsible Officer:** Risk and OH&S Co-ordinator, Michelle Foster

#### Disclosure of Conflicts of Interest

The author of this report does not have a Conflict of Interest in this matter

#### Introduction

This report provides an update on Council's Top 5 Risks.

#### Background

The identified Top 5 risks for Council are recorded and actions monitored through OMNI Councils' reporting software. The up to date status on the top 5 risks are attached to this report.

All other risks are recorded in CRMS and on Excel spread sheet (Councils Risk Register).

#### Statutory Requirements

There are no statutory requirements, however monitoring of Council's Risk Management Strategy is a key responsibility of the Audit and Risk Advisory Committee.

#### Council Plan

Strategic Objective 5.3      Our organisation transparently reports on its performance through a comprehensive reporting and audit framework.

Strategic Objective 5.5      We have a strong framework in place to proactively mitigate risk.



## 6.1 Risk Management Procedures and Top Five (5) Risks cont.

### Financial

No financial implications

### Risk Management

Council's Risk Register forms part of Council's Risk Management Framework.

### Officer's Comments

Council's Top 5 Risks and the associated deliverables are attached for the Audit and Risk Advisory Committee's Information.

Of the 23 deliverables presented to the Audit and Risk Advisory Committee Meeting, eleven deliverables have been closed out. No deliverables were closed out this quarter. Twelve deliverables remain open.

### **D. MacKenzie/H. Westendorp:**

That the Audit and Risk Advisory Committee receive this report.

Carried



# ATTACHMENT 6.1

RISK REGISTER

(2 PAGES)





## 7. INTERNAL AUDIT AND CONTROL

Duties and responsibilities of the Committee:

- Review the scope of the internal audit plan and program and the effectiveness of this function taking into consideration whether the program systematically addresses:
  - internal controls over significant areas of risk, including non-financial management control systems;
  - internal controls over revenue, expenditure, assets and liability processes,
  - the efficiency, effectiveness and economy of significant Council programs; and
  - Compliance with regulations, policies, best practice guidelines, and contractual arrangements.
- Review the appropriateness of special internal audit assignments.
- Review the level of resources allocated to internal audit and the scope of its authority, including the independence of Internal Audit function.
- Review reports of internal audit, the response of Council and management to matters raised, and monitor the implementation of recommendation made by internal audit.
- Critically analyse and follow up any internal or external audit report recommendation which raises significant issues relating to risk management, internal control, financial reporting and other accountability or governance issues.

### 7.1 Internal Audit

**File Number:** E310  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

#### Disclosure of Conflicts of Interest

There are no conflicts of interest in relation to the matters within this report.

#### Introduction

This report provides a status update on our Internal Audit program.

#### Background

Council's Risk Management Strategy requires the management of risk in accordance with best practice and compliance with Standard AS/NZS 31000 2009. Under the Standard, a risk management process follows a systematic application of policy, procedures and practices to the tasks of context identification, analysis, evaluation, treatment, monitoring and communication. The internal audit process is an essential tool in this process.

#### Statutory Requirements

There are no statutory requirements.



## 7.1 Internal Audit cont.

The monitoring of Council's Internal Audit Plan and recommendations is a key responsibility of the Audit and Risk Advisory Committee.

### Council Plan

Theme: Responsible leadership.

Strategy 5.3: Our organisation transparently reports on its performance through a comprehensive reporting and audit framework.

Strategy 5.5: We have a strong framework in place to proactively mitigate risk

### Financial

The findings from an independent audit have the potential to impact on future MAV public liability premiums. The costs of internal audit are included annually in Council budgets.

### Risk Management

This process is part of Council's Risk Management Strategy.

### Communication

There has been no external communication in relation to this matter.

### Officer's Comments

There have been two internal audits conducted since the previous Audit and Risk Advisory Committee meeting in February 2018.

#### Domestic Wastewater Management Plan

The Domestic Wastewater Management Plan (DWMP) actions were reviewed on 19 and 20 February 2018. The main purpose for the review was to obtain an independent assessment of whether the DWMP actions are being adequately addressed.

A summary of the findings includes:

- 2 actions assessed by officers as partially complete were deemed to be complete by AFS,
- 1 action assessed by officers as complete was deemed to be still in progress, and;
- The status of the remaining 26 actions was agreed as per officers assessment.

The full report is attached for review.

#### Local Laws

A Local Laws procedures review was conducted on 5 and 6 April 2018. The scope of the review included a follow up of the recommendations made in a recent Local Laws investigation undertaken at the request of IBAC. A summary of the draft findings includes:

- out of a total of 13 original recommendations, 4 are complete (2 of those subject to specific Audit and Risk Advisory Committee Approval), 6 are in progress and 3 not yet addressed



**7.1 Internal Audit cont.**

- 1 minor additional recommendation to perform a risk assessment over the Local Laws department

The two complete recommendations requiring ARAC approval are:

Recommendation / agreed action	AFS comments (summary)
<b>#6: Develop a complaints procedure for Local Laws</b>	The organisational Complaints Policy is sufficient to cover off the issue. We recommend the existing Complaints Procedure is redistributed to Local Laws staff to promote compliance.
<b>#11. Develop a training plan for Local Laws officers</b>	Sighted a training plan within the Domestic Animal Management Plan outlining the proposed training over the next 12 months.

The draft report is attached for review.

Management responses will be provided to AFS to finalise the report over the coming weeks, and the actions will be entered into OMNI for tracking.

Internal Audit Actions

Progress against previous internal audit findings is presented in the attached Internal Audit Actions Progress report.

Internal Audit Program

The CEO and Finance Manager met with Internal Audit partner, Brad Ead, to discuss modifications to the Internal Audit plan for the next 12 months. The revised Internal Audit Program is attached for review and endorsement.

Recommendation:

That the Audit and Risk Advisory Committee:

1. receive the Domestic Wastewater Management Plan Internal Audit report;
2. receive the draft Local Laws Internal Audit report;
3. approve the closure of recommendation 6 in the draft Local Laws Internal Audit report;
4. approve the closure of recommendation 11 in the draft Local Laws Internal Audit report;
5. receive the Internal Audit Actions Progress Report; and
6. review and endorse the revised Internal Audit schedule.



## 7.1 Internal Audit cont.

### **D. Mackenzie/H. Westendorp:**

**That the Audit and Risk Advisory Committee:**

- 1. receive the Domestic Wastewater Management Plan Internal Audit report;**
- 2. receive the draft Local Laws Internal Audit report;**
- 3. approve the closure of recommendation 6 in the draft Local Laws Internal Audit report;**
- 4. approve the closure of recommendation 11 in the draft Local Laws Internal Audit report;**
- 5. receive the Internal Audit Actions Progress Report;**
- 6. review and endorse the revised Internal Audit schedule and**
- 7. add an annual review of the CEO and Mayoral credit cards.**

Carried

Audit and Risk Advisory Committee have requested that significant progress be made by August on Contract Management – 100% completion.



# ATTACHMENTS 7.1

DOMESTIC WASTE WATER MANAGEMENT PLAN  
AUDIT – AFS PARTNERS REPORT

(26 PAGES)

REVIEW OF PREVIOUS LOCAL LAW AUDIT –  
AFS PARTNERS REPORT

(23 PAGES)

INTERNAL AUDIT ACTIONS – OMNI REPORT  
(3 PAGES)

INTERNAL AUDIT PROGRAM STATUS UPDATE  
(6 PAGES)



## 7.2 Mansfield Shire Council Investment Schedule

**File Number:** E2887  
**Responsible Officer:** Senior Accountant, Belinda Langlands

### Disclosure of Conflicts of Interest

The author of this report does not have a Conflict of Interest in this matter.

### Introduction

A report on the status of Council's investments is to be reported on at each committee meeting. A schedule of Council's investments has been attached showing details of investments as at 30 April 2018.

### Background

Regular reporting to the Audit & Risk Advisory Committee in relation to investments is required in accordance with the Investment Policy adopted by Council.

### Council Plan

Theme: Responsible leadership.

Strategic Objective 5.3: Our organisation transparently reports on its performance through a comprehensive reporting and audit framework.

Strategic Objective 5.5: We have a strong framework in place to proactively mitigate risk

### Financial

Excess cash is invested in order to attract greater interest income than that achievable through our operating bank account.

### Statutory Requirements

Councils Investment Policy is set up to adhere to the requirements contained within S143 of the *Local Government Act 1989*.

### Risk Management

Regular review of investments is seen as an integral part of Council's risk management process

### Officers Comments

Council's current term deposits range between 3 and 12 months in term. Term Deposit interest rates currently being received range between 2.45% and 2.75%. Council currently have an at call account which is receiving 1.75% interest.



## 7.2 Mansfield Shire Council Investment Schedule cont.

The RBA cash rate remained unchanged over the previous quarter resulting in fairly stable interest rates.

As at 30 April 2018 the NAB operating account cash balance was \$1.24million.

Council is currently compliant with its Investment Policy.

**D. MacKenzie/H. Westendorp:**

**That the report be received and noted.**

Carried



# ATTACHMENT 7.2

## INVESTMENT REPORT

(2 PAGES)





## 7.3 Procedural Exceptions

**File Number:** E503/2  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

### Disclosure of Conflicts of Interest

The author of this report has no conflict of interest in this matter.

### Introduction

Council's Procurement Policy provides specific circumstances under which exceptions to the policy are allowable. This report provides details of any Procedural Exceptions that have occurred during the last quarter.

### Background

S 3.4 of the Procurement Policy states

*There may be, from time to time, exceptional circumstances that arise where the provisions of the Procurement Policy cannot be satisfied.*

*In these cases approval from the CEO is required prior to proceeding with the purchase.*

*The requirements of S3 of the procedures attached to the policy are to be followed in such circumstances and a Procedural Exceptions Memo must be used to submit a request. Supporting evidence must accompany any request to utilise this provision that clearly demonstrates a procedural exception exists.*

There have been no procedural exception memos authorised by the CEO since the previous ARAC meeting on 19 February 2018.

### Statutory Requirements

Procedural Exceptions approved by the CEO are considered to be compliant with policy.

### Council Plan

Strategic Objective 5.3: Our organisation transparently reports on its performance through a comprehensive reporting and audit framework.

Strategic Objective 5.5: We have a strong framework in place to proactively mitigate risk.

### Financial

Exemptions to the general requirements of Council's Procurement Policy can lead to additional costs to Council as they typically revolve around removing the competition requirements of the policy. There are no financial impacts of this report as there are no procedural exceptions memos this quarter.



### 7.3 Procedural Exceptions cont.

#### **Social**

There is no significant social impact in relation to this matter

#### **Environmental**

There are no environment impacts related to this matter

#### **Economic**

There is no significant impact in relation to this matter.

#### **Risk Management**

The procedural exceptions process allows for a controlled variation to standard procurement requirements.

#### **Community Engagement**

There has been no broad community engagement on the matter.

#### **Officer's Comments**

There have been no procedural exceptions memos received this quarter.

#### **D. MacKenzie/H. Westendorp:**

**That the Audit and Risk Advisory Committee note there have been no Procedural Exceptions Memorandums authorised by the Chief Executive Officer since the previous ARAC meeting on 19 February 2018.**

Carried



## 7.4 Fixed Asset Valuation

**File Number:** E5031  
**Responsible Officer:** Senior Accountant, Belinda Langlands

### Disclosure of Conflicts of Interest

The author of this report does not have a conflict of interest in this matter.

### Introduction

Council has recently re-valued three categories of infrastructure assets for accounting purposes this financial year. The categories are:

- Land and buildings (incl land improvements)
- Bridges
- Drainage

The valuation reports are presented to the Audit and Risk Advisory Committee for review and endorsement prior to posting any adjustments in our financial system for the financial year ending 30 June 2018.

### Background

Council's Asset Accounting Policy requires asset revaluations to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period (as per *AASB 116 Property Plant and Equipment*).

To achieve this, formal revaluations of each class of land, building and infrastructure assets are performed every 2 to 3 years. In the 2017-18 financial year, the classes requiring formal revaluation are

- Land and buildings
- Drainage (pits and pipes)
- Bridges

Land and buildings (including land improvements) has been valued by independent contractor LG Valuations.

Drainage has been valued by Council's Infrastructure department.

Bridges have been valued by independent contractor Peter Moloney.

Each of the valuation reports are attached. The bridge valuation report is in draft pending formal confirmation of the underlying assumptions by the valuer and Council's Infrastructure department.



## 7.4 Fixed Asset Valuation cont.

A summary of the impact of the valuations follows:

Asset category	Valuation (at fair value)	Carrying value 30 Jun 2017	Uplift / (decline)	
Land	\$16,191,242	\$13,398,034	\$2,793,208	21%
Buildings	\$13,795,128	\$12,099,305	\$1,695,823	14%
Land improvements	\$4,042,625	\$3,923,351	\$119,274	3%
Drainage	\$12,337,563	\$11,261,150	\$1,076,413	9%
Bridges (draft)	\$16,949,205	\$11,547,715	\$5,401,490	47%

Land under roads (LUR) has also been valued this year. The LUR valuation was presented to the ARAC at the February 2018 meeting and is therefore not considered in this report.

### Statutory Requirements

The *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014* require Council financial reports to be prepared in accordance with Australian Accounting Standards, and the Local Government Model Financial Report.

### Council Plan

Strategic Objective 5.3: Our organisation transparently reports on its performance through a comprehensive reporting and audit framework.

### Financial

Adopting the fair value assessments of Land & Buildings, Drainage and Bridges will increase the value of non-current assets and also increase the Asset Revaluation Reserve in Council's Financial Statements for the year ended 30 June 2018.

The total resulting increases will be:

Financial Statement Category	Increase / (decrease)
<b>Non current Assets</b>	
Land	\$2,793,208
Buildings	\$1,695,823
Land improvements	\$119,274
Drainage	\$1,076,413
Bridges (draft)	\$5,401,490
<b>Equity</b>	
Revaluation reserves	\$10,390,952
Accumulated surplus **	\$695,256

\*\* As part of the valuation process, a reconciliation between the finance fixed asset register and the rates land register identified parcels of land that had not been included previously in the fixed asset register. These are treated as "found assets" and accounted for as a prior period adjustment through opening accumulated surpluses.



## 7.4 Fixed Asset Valuation cont.

It should be noted that the valuations do not include additions from Work In Progress that will be capitalised at the end of the financial year.

### **Social**

There is no significant social impact in relation to this matter.

### **Environmental**

There are no environmental impacts related to this matter.

### **Economic**

There is no significant economic impact in relation to this matter.

### **Risk Management**

The Victorian Auditor General has recommended that all valuations are reviewed by the Audit & Risk Advisory Committee prior to adoption of the data.

### **Community Engagement**

There has been no community engagement on the matter.

### **Officer's Comments**

The full valuation reports are attached.

The valuations have been provided to the financial auditors for review but we have not yet received any feedback.

#### Recommendation:

1. That the Audit and Risk Advisory Committee endorse the valuation reports for Land & Buildings, and Drainage, and recommend that Officers adopt the valuations for the financial statements as at 30 June 2018, subject to audit by the Victorian Auditor Generals Office.
2. That the Audit and Risk Advisory Committee note the draft bridges valuation.

### **D. MacKenzie/H. Westendorp**

**That subject to Charter, the reviewed/audited valuation reports be circulated to the Committee and are to be endorsed via circular resolution.**

Carried



# ATTACHMENT 7.4

LG VALUATION SERVICES 2018 ASSET  
VALUATION REPORT  
(23 PAGES)

ASSET VALUATION SUMMARY – STORMWATER  
ASSETS 2017-18  
(9 PAGES)

DRAFT BRIDGE REPORT 2018  
(22 PAGES)

## 8. FINANCIAL AND PERFORMANCE REPORTS

Duties and responsibilities of the Committee:

- To review the draft annual financial report with management and external auditors prior to the approval by Council, focusing on:
  - Significant changes in accounting policies and practices
  - Significant audit adjustments
  - Compliance with accounting standards and other reporting requirements
  - Significant variances from previous years
- Discuss with the external auditor issues arising from the audit, including any management letter issued by the auditor.
- To review the draft annual performance statement prior to presentation to Council and recommendation for adoption
- Review the information included in Council's annual report to ensure it is consistent with the signed financial statements.

### 8.1 Finance Report: 1 July to 31 March 2018

**File Number:** E24  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

#### Disclosure of Conflicts of Interest

The author of this report does not have a Conflict of Interest in this matter.

#### Introduction

This finance report provides information on Council's operating and capital performance against the 2017-18 Budget. Favourable variances are reported as positive values, while unfavourable variances are negative values.

The following attachments form part of this month's financial report:

- Income and Expenditure Report
- Operating Finance Report – Income and Expenditure
- Capital Finance Report – Income and Expenditure
- Balance Sheet
- Statement of Cash Flows

#### Background

Council, at its Special meeting of 27 June 2017, adopted the budget for the 2017-2018 financial year. Variances have been reported against the original 2017-18 Budget.



## 8.1 Finance Report: 1 July to 31 March 2018 cont.

### Statutory Requirements

Under Section 138 of the *Local Government Act 1989*, at least quarterly a report comparing expenses and revenue to budget must be presented to the Council.

### Council Plan

The financial report is in line with the Council plan goal of Responsible Leadership.

### Financial

The reports attached provide the opportunity for regular review of Council's financial position to ensure compliance with budgets.

### Social

Nil.

### Environmental

Nil.

### Economic

Nil.

### Risk Management

Regular financial reporting is part of Council's financial strategy to ensure budgets are complied with and ensure the short to medium term financial sustainability of Council.

### Community Engagement

The report forms part of the Council meeting agenda and minutes which are public documents.

### Officer's Comments

#### ***Operating Finance Report:***

#### Operating Income & Expenditure: Actual against Budget

The year to date operating result is favourable against the 2017-18 Budget by \$897k (20%). Major variances are summarised below.

#### Unfavourable Variances

- \$47k Community Services Operations – Health & Wellbeing Plan was not budgeted, however is a carry forward of funds from prior year.





## 8.1 Finance Report: 1 July to 31 March 2018 cont.

- \$40k Sport & Recreation – \$25k Sporting Strategy not budgeted, however is a carry forward of funds from prior year. Also some budget timing issues in relation to the pool expenses.
- \$76k Local Laws – timing only in relation to animal registration fees (income will be received in April 2018).
- \$63k Emergency Management - Flood Management response from December floods. A natural disaster claim will be made to recoup costs.
- \$815k Salaries & Wages Clearing – timing issue. All leave accruals are updated at year end.

### Favourable Variances

- \$96k Arts, Culture & Library – Full year grant income received in advance. Also there is a timing delay in the payment of the contribution to the Hub for third quarter expenses. \$19k income in relation to the wind up of the High Country Library was not budgeted.
- \$61k Community Development – \$30k income for PYP Get Fit & Active Project has been received, however project is likely to commence in 2018-19. \$20k income for End of Life project has been received however associated project costs should commence in approximately May 2018.
- \$33k Emergency Management Recovery – Full year grant income received in advance and some timing issues of expenditure.
- \$126k Family Youth & Children’s Services – Grant income for Maternal and Child Health and Integrated Family Services is higher than budgeted. \$31k income for Supported Playgroups has been received, but project has not yet commenced. L2P Program funding was received in advance, and expenses are currently under budget in this area (timing only). \$20k Youth Engagement funding has been received, however project has not yet commenced.
- \$57k Human Resources – Expenses under budget YTD across recruitment costs, consultants and training. Savings in this area (approx. \$31k for 2017-18) will be offset against costs associated with the website development.
- \$50k Statutory Planning – Planning fees (income) are higher than budgeted YTD. Number of applications is higher than anticipated, combined with an increase in the statutory fee.
- \$78k Strategic Planning – reduced staffing in this area.
- \$85k Waste Management – Income higher than budgeted due to supplementary rates and increased adhoc collection services.
- \$62 Economic Development Programs – costs in this area have been reduced and are expected to be under budget for the 2017-18 year.
- \$260k Engineering Services – Timing of consultancy costs \$64k which will be used for valuation of assets. Wages under budget due to staff vacancies throughout the year and asset management position. Inspection & Permit fee income is over budget \$27k YTD.
- \$66k Parks & Gardens – Plant hire (internal charge only), wages and material and services under budget YTD.
- \$501k Road Network Maintenance – Rural Roads currently under budget \$406k, which includes \$294k wages, \$77k plant hire (internal charge only), and \$32k materials. Urban Roads also under budget \$83k, which includes \$54k wages and \$18k materials.



## 8.1 Finance Report: 1 July to 31 March 2018 cont.

- \$84k Financial Services –Wages under budget YTD and interest on investments is higher than budgeted due to higher than budgeted cash balances.
- \$91k Revenue Services - Rate income higher than budgeted by \$36k YTD due to supplementary rates. Wages, debt collection costs and postage are under budget.

### **Capital Works:**

#### Capital Income & Expenditure: Actual against Forecast

The net year to date capital works variance (net of capital income) is \$2.2m favourable to the 2017-18 Budget. Major variances are summarised below.

#### Unfavourable Variances

- \$37k Sport & Recreation - Hit Up Wall income of \$81k was received in advance in June 2017. Project has been tendered and will require an additional \$64k above budget. It is expected to commence in April 2018. Swimming pool refurbishment is funded partly by carry forward budget from 2016-17.

#### Favourable Variances

- \$378k Bridges & Culverts – Deadhorse Lane / Withers Lane Culvert project is now complete. Carried forward \$423k to 17-18 budget however much of this work was actually completed in 16-17. Work on the Howqua Track culvert replacement will commence in April 2018.
- \$124k Buildings – \$100k Building refurbishment program has now been fully scoped and will commence in May 2018.
- \$134k Information Technology – New planning system has not yet been selected.
- \$79k Land – \$34k sale of land was unbudgeted. Heavy Vehicle Bypass land purchase is underway but not yet complete.
- \$416k Plant – Mainly timing of budget, however some savings (approx. \$70k) are expected to be made in this area.
- \$1,098k Roads –
  - Resealing program is nearly complete, timing only.
  - Resheeting program has been delayed due to a delay in materials.
  - Heavy Vehicle Bypass project is delayed due to design amendments required by VicRoads.
  - Ogilvies Road reconstruction over budget due to additional safety improvements which were not included in the original scope. The contractor has completed defect rectification work.
  - Telemark Court was a 2016-17 project, which was partly delayed until 2017-18 due to weather.
  - Hutchinsons Rd, Sonnberg Drive, & Eildon Jamieson Road Safety Improvements were prior year projects. Acquittals have been completed and income received for these projects.
  - Apline Ridge reconstruction has been deferred.
  - Lochiel Rd reconstruction has been cancelled as an alternate seal treatment undertaken.



## 8.1 Finance Report: 1 July to 31 March 2018 cont.

- Roads to Recovery income will follow after completion of reseal and resheet programs.

### **Overall Position:**

Operating Variance Favourable/(Unfavourable)	\$897,502
Capital Variance Favourable/(Unfavourable)	<u>\$2,204,623</u>
Total Variance Favourable/(Unfavourable)	\$3,102,125

### **Balance Sheet:**

#### **Current Assets:**

Cash and investments total \$9.6m and includes \$7m general investments and \$257k for the Cemetery Trusts.

Net current receivables of \$3.6m, includes rates debt of \$3.3m, sundry debtors of \$155k, and loan debtors of \$41k. Loan debtors represent the principal not yet due for payment in relation to street schemes where residents have opted to repay over an agreed term and community group loans.

Debtors are being monitored and regular follow up action taken to minimise any write offs.

Council is generally owed money for the GST input tax credit and BASs are lodged monthly. All legislative requirements are being met.

#### **Current Liabilities:**

The major items here are provisions of \$1.9m (\$1.6m employee benefits & \$315k landfill) and trust funds of \$1.08m. Trust funds include \$257k Cemetery Trust, \$443k Refundable Deposits and \$387k Fire Services Levy. Fire Services Property Levy collections are held in trust until forwarded to the State Revenue Office.

**Current Ratio: 3.78 : 1**

#### **Non-Current Assets:**

These include all infrastructure assets and for the purpose of this report the cost of the 2017-18 capital works has been treated as WIP and added to the balance sheet here.

#### **Non-Current Liabilities:**

Major items here include loan liability \$2.5m.

### **D. MacKenzie/H. Westendorp:**

**That the Audit and Risk Advisory Committee receives the Finance Report for the period 1 July 2017 to 31 March 2018.**

Carried



# ATTACHMENT 8.1

FINANCE REPORT:  
JULY 2017 - MARCH 2018  
(7 PAGES)

## 8.2 Model Financial Statements (Shell Accounts)

**File Number:** E3431  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

### Disclosure of Conflicts of Interest

There are no conflicts of interest in relation to the matters within this report.

### Introduction

Council is required to consider the draft Financial Report (the Report) and Performance Statement (the Statement) for the period ended 30 June 2018, and recommend that they be adopted in principle. Two (2) Councillors will be nominated to certify as to their fairness and (if necessary) endorse any changes once they have been approved by the Victorian Auditor General. Prior to its consideration by Council it is proposed that the Audit and Risk Advisory Committee review the Report and Statement and recommend their adoption by Council.

### Background

Each year the draft Financial Report is prepared by officers in accordance with the Model Financial Report (the Model), prepared and released by Local Government Victoria.

The 2017-18 Model has some significant formatting and layout changes, the intent of which is to improve readability of Financial Reports across the Local Government sector.

Officers have prepared the “Shell Accounts” for Mansfield Shire Council using the new Model. Shell Accounts are the draft Financial Report including the new template notes, with prior year data included where readily available. The current year data will not be entered until after 30 June 2018.

Given the significant change in the look and feel of the new Model, the Shell Accounts are presented to the Audit and Risk Advisory Committee at this time for review of the disclosure template only and not accuracy of the financial data therein.

### Statutory Requirements

In accordance with s131(2) of the *Local Government Act 1989* (the Act) a Council must, in respect of each financial year, prepare an annual report containing:

- A report of its operations for the financial year
- Audited Performance Statement
- Audited Financial Report for the financial year
- A copy of the auditor’s report on the Performance Statement, prepared under section 132
- A copy of the auditor’s report on the Financial Report under Part 3 of the *Audit Act 1994*
- Any other matter required by the regulations.

In accordance with s131(4) and (5) of the Act, the Financial Report and Performance Statement included in the annual report must be prepared in accordance with the



## 8.2 Model Financial Statements (Shell Accounts) cont.

regulations.

The Financial Report and Performance Statements must:

- be submitted in their finalised form to the auditor for auditing as soon as possible after the end of the financial year
- present fairly the financial transactions of Council during the financial year to which they relate
- present fairly the financial position of Council at the end of the financial year
- be certified in the manner prescribed.

In accordance with the Act the annual report must be submitted to the Minister within three (3) months of the end of each financial year (by 30 September) or such longer period as the Minister may permit in a particular case.

The Council must authorise two (2) Councillors to certify the Financial Report and Performance Statement in their final form after any changes recommended, or agreed to by the auditor have been made.

The Council must not submit the Financial Report to its auditor or to the Minister unless it has passed a resolution giving its approval “in-principle” to the Financial Report. After the Annual Report has been submitted to the Minister, the Council must give public notice that the Annual Report has been prepared and can be inspected at the Council office.

### **Council Plan**

Completion of Council’s Financial Report and their adoption by council is in accordance with the Council Plan corporate strategies ensuring compliance with the *Local Government Act 1989*, *Local Government Regulations 2014* and relevant accounting standards.

### **Financial**

There are no direct financial implications in relation to this matter

### **Social**

There are no social implications in relation to this matter

### **Environmental**

There are no environmental implications in relation to this matter

### **Economic**

There are no economic implications in relation to this matter

### **Risk Management**

The use of the Local Government Model Financial Report as a template ensures consistency across the Local Government Sector, and minimises the risk of non-



## 8.2 Model Financial Statements (Shell Accounts) cont.

compliance with Financial Report disclosure requirements under Australian Accounting Standards.

### Community Engagement

The Financial Report will form part of Council's Annual Report which will be available to the Community and on Council's website. Notice of the meeting at which the Annual Report is discussed is also advertised locally.

### Officer's Comments

There has been a significant change in the order of the notes to the Financial Statements, to improve the flow and readability of the information. While the same information is included compared to the prior year Report, it can be found in different areas of the report.

The most obvious change is the removal of the traditional Note 1 on Accounting Policies. Accounting policy information is now dispersed throughout the report, included in the relevant note to which the policy relates.

The Shell Accounts are attached for the Committee's information.

It should be note that the Shell Accounts have not yet been reviewed by our auditors.

**D. MacKenzie/H. Westendorp:**

**That the Audit and Risk Advisory Committee note the attached Shell Accounts for the year ended 30 June 2018.**

Carried



# ATTACHMENT 8.2

DRAFT ANNUAL FINANCIAL REPORT  
(40 PAGES)





### 8.3 VAGO Management Letter Issues

**File Number:** E3431  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

#### **Disclosure of Conflicts of Interest**

The author of this report does not have a conflict of interest in relation to this matter.

#### **Introduction**

A progress report as at 11 May 2018 is attached for the Committee's review. The report details the open management letter issues raised by the Victorian Auditor-General's Office (VAGO) from previous interim and final external audits.

#### **Background**

On completion of the financial audits (interim visit is usually around April and final visit usually around August) VAGO issue a management letter that details all control deficiencies or issues identified, and recommendations for rectification.

The report is usually presented to the ARAC by the Audit Partner on completion of each audit.

Officers report to the ARAC quarterly on the progress against these recommendations.

#### **Statutory Requirements**

There are no statutory requirements in relation to this matter

#### **Council Plan**

Theme: Responsible leadership.

Strategy 5.3: Our organisation transparently reports on its performance through a comprehensive reporting and audit framework.

Strategy 5.5: We have a strong framework in place to proactively mitigate risk

#### **Financial**

There are no direct financial implications in relation to this matter

#### **Social**

There are no social implications in relation to this matter

#### **Environmental**

There are no environmental implications in relation to this matter



### 8.3 VAGO Management Letter Issues cont.

#### Economic

There are no economic implications in relation to this matter

#### Risk Management

The VAGO audit is a key piece of Council's internal control framework. Officers timely progress against outstanding management letter points is essential to ensure risk mitigation is maximized.

#### Community Engagement

There has been no direct community engagement in relation to this matter, however the minutes of the ARAC meetings are included in the following Council meeting agenda papers which are public documents and made available for review on Council's website.

#### Officer's Comments

The VAGO Management Letter Points status report is attached for the Committee's review.

As at 11 May 2018 there are 4 items that has not been addressed within the agreed timeframe:

1. Document a stocktake procedure:
  - a. Discussions with other Finance Managers and also representatives from VAGO at the Central Victorian Finance Forum in March, it is uncommon for similar council's to have a documented stocktake procedure, given the low level of stock on hand at Council's. Our new VAGO representatives from Johnsons MME have also indicated in discussions that they are unlikely to enforce this recommendation in management letters for 2017-18. Therefore management do not intend to address this recommendation. We are consciously winding down stock levels to ensure they are low and not excessive.
2. Complete and test the Business Continuity Plan
  - a. Delayed until 31 May 2018 due to staff workload.
3. Document a password reset policy
  - a. Delayed until 30 June 2018 due to staff workload.
4. Complete IT penetration testing:
  - a. scheduled for completion by end May 2018 (one month behind schedule).

**D. MacKenzie/H. Westendorp:**

**That the Audit and Risk Advisory Committee accept the attached VAGO Management Letter Point status report.**

Carried



# ATTACHMENT 8.3

OMNI REPORT – VAGO MANAGEMENT LETTER  
POINTS

(1 PAGE)



## 9. OTHER BUSINESS

### 9.1 Budget Information Session Update

CEO presented the Melbourne Non-Resident Ratepayers' meeting slideshow presentation and provided an update on :

- General Managers
- Waste Charge Imbalance
- Dual Court Stadium

Arrange for the waste charge imbalance to be listed on the Risk Register.

## 10. NEXT MEETING

The next meeting of the Audit and Risk Advisory Committee will be held on Monday, 20 August 2018 in the Council Chamber **commencing at 4.30 pm for Committee members with officers attending from 5.00 pm.**

## 11. CLOSURE OF MEETING

There being no further business the meeting concluded at 7.09 pm.

CONFIRMED this **Twentieth** day of August 2018.

\_\_\_\_\_  
**Chair**