



# 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

**19 November 2018**  
MANSFIELD SHIRE OFFICE  
33 Highett Street, Mansfield

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

## CONTENTS

<b>1.</b>	<b>OPENING OF THE MEETING .....</b>	<b>1</b>
<b>2.</b>	<b>ELECTION OF CHAIRPERSON.....</b>	<b>1</b>
	<b>2.1 Election of Chairperson .....</b>	<b>1</b>
<b>3.</b>	<b>APOLOGIES .....</b>	<b>3</b>
<b>4.</b>	<b>CONFIRMATION OF MINUTES.....</b>	<b>3</b>
<b>5.</b>	<b>DISCLOSURE OF CONFLICTS OF INTEREST.....</b>	<b>3</b>
<b>6.</b>	<b>OUTSTANDING ACTIONS.....</b>	<b>3</b>
<b>7.</b>	<b>AUDIT AND RISK ADVISORY COMMITTEE CHARTER REVIEW.....</b>	<b>5</b>
	<b>7.1 Audit and Risk Advisory Committee Charter Review .....</b>	<b>5</b>
	<b>Attachments 7.1.....</b>	<b>7</b>
<b>8.</b>	<b>FINANCIAL AND PERFORMANCE REPORTS .....</b>	<b>16</b>
	<b>8.1 Finance Report: 1 July 2018 to 31 October 2018 .....</b>	<b>16</b>
	<b>Attachments 8.1.....</b>	<b>22</b>
	<b>8.2 Annual Governance Schedule .....</b>	<b>33</b>
	<b>Attachments 8.2.....</b>	<b>35</b>
	<b>8.3 VAGO Management Letter Issues.....</b>	<b>37</b>



	<i>Attachments 8.3</i> .....	39
<b>9.</b>	<b>INTERNAL AUDIT AND CONTROL</b> .....	<b>56</b>
<b>9.1</b>	<b>Internal Audit Status Update</b> .....	<b>56</b>
	<i>Attachments 9.1</i> .....	59
<b>9.2</b>	<b>Procedural Exceptions</b> .....	<b>105</b>
	<i>Attachments 9.2</i> .....	107
<b>9.3</b>	<b>Mansfield Shire Council Investment Schedule</b> .....	<b>123</b>
	<i>Attachments 9.3</i> .....	124
<b>10.</b>	<b>RISK MANAGEMENT</b> .....	<b>127</b>
<b>10.1</b>	<b>Risk Management and Top Five (5) Risks</b> .....	<b>127</b>
	<i>Attachment 10.1</i> .....	129
<b>10.2</b>	<b>Policy Register Status Update</b> .....	<b>133</b>
	<i>Attachment 10.2</i> .....	135
<b>10.3</b>	<b>Procurement and Contract Management Policies</b> .....	<b>138</b>
	<i>Attachment 10.3</i> .....	140
<b>11.</b>	<b>OTHER BUSINESS</b> .....	<b>217</b>
<b>12.</b>	<b>NEXT MEETING</b> .....	<b>217</b>
<b>13.</b>	<b>CLOSURE OF MEETING</b> .....	<b>217</b>



# MINUTES

**19 November 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 5.05 pm.

### PRESENT

#### External Members:

Ms Dannielle MacKenzie  
Ms Janene Ridley  
Mr. Robert Bennett  
Mr. Vito Giudice

#### Councillors:

Cr Paul Volkering  
Cr Harry Westendorp

### IN ATTENDANCE

**Finance Manager:**  
**AFS and Associates – Internal Auditor**

Mandy Kynnersley  
Bradley Ead

## 2. ELECTION OF CHAIRPERSON

Janene Ridley vacated the Chair which was assumed by Finance Manager, Mandy Kynnersley to conduct the Election of Chairperson.

### 2.1 Election of Chairperson

**File Number:** E3627  
**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**

Committee members are required to elect a Chairperson for the Committee.

#### **Background**

Janine Ridley was elected as Chairperson of the Audit and Risk Advisory Committee for a 12-month term, commencing August 2017. This term has expired, and therefore a new election (or re-election) of a Chairperson is required.



## 2.1 Election of Chairperson cont.

The Charter requires the Chairperson to be elected (or re-elected) from the independent Committee members (ie cannot be a Councillor).

The role of the Chairperson (per the Charter) shall be:

- To chair all meetings of the Committee
- To act as the liaison person between the Committee and Council
- To arrange for an annual report of the Committee to be prepared for presentation to Council.

In the absence of the Chairperson at future meetings (once elected), the Committee may elect one of the independent members to preside as Chairperson at the meeting.

### **Statutory Requirements**

There are no statutory requirements.

### **Council Plan**

The Audit and Risk Advisory Committee supports delivery of the Financial Sustainability and Responsible Governance themes in the 2017-21 Council Plan.

### **Financial**

There are no financial implications in this matter

### **Social**

There are no social implications in this matter

### **Environmental**

There are no environmental implications in this matter

### **Economic**

There are no environmental implications in this matter

### **Risk Management**

There are no inherent risks associated with this matter

### **Community Engagement**

There is no community engagement required on this matter

### **Officer's Comments**

The Charter is silent as to whether an existing Chairperson can be re-appointed if they commence a new term on the Committee. It is therefore assumed that all 3 independent members are eligible for election to the Chairperson role.

The Charter also remains silent on the term of the Chairperson role. This may be a consideration for future iterations of the Charter.

### **R. Bennett/D. McKenzie:**

**That the Committee re-appoint Janene Ridley as Chairperson for the next 12 months and assumed the Chair.**

Carried



### 3. APOLOGIES

Alex Green

### 4. CONFIRMATION OF MINUTES

**D. McKenzie/H. Westendorp:**

**That the Minutes of the Audit and Risk Advisory Committee Meeting held on 20 August 2018 be confirmed as an accurate record.**

Carried

### 5. DISCLOSURE OF CONFLICTS OF INTEREST

NIL

### 6. OUTSTANDING ACTIONS

Date	Action	Due Date	Comment
20 August 2018	Item 6.3 – Financial Statements <ul style="list-style-type: none"> <li>Threshold to be set by Audit Committee for what should be disclosed in related party note 6.2 (a).</li> <li>FM to insert the words “and reviewed by the Audit and Risk Advisory Committee” in the commentary to note 6.2(a) to the financial statements.</li> <li>FM to explain the movement from prior year in User Fees on the Cashflow Statement. FM to email response to R. Bennett and copy all members.</li> <li></li> </ul>	30 June 2019	30 June 2019
			Done
			Done
	Item 6.4 – Performance Statement 17/18 <ul style="list-style-type: none"> <li>Workforce turnover: revise the indicators to 8% yr1, 6% yr2, 4% yr3 and 2% yr4 in next year’s (2019-20) budget document.</li> <li>Unrestricted cash: edit commentary to include the change in classification is to ‘comply with regulation’.</li> </ul>		Completed
	Item 7.1 – Internal Audit Status Update <ul style="list-style-type: none"> <li>Committee to review the Internal Audit Program in November.</li> <li>Completed contracts register to come before the Committee at a date to be determined (FM to provide a delivery date at the November meeting).</li> </ul>		IA plan review scheduled for MAY in Annual Schedule. Contracts register presented to ARAC at 19 November 2018 meeting.



**6. Outstanding Actions cont.**

	<p>Item 9.1 – Self-assessment</p> <ul style="list-style-type: none"><li>• AFS to include a comparison year on year in next year’s (2019) self-assessment report.</li><li>• J. Ridley to provide FM with an Action Plan.</li></ul>		
	<p>Item 9.3 – Audit and Risk Advisory Committee Annual Plan</p> <ul style="list-style-type: none"><li>• J Ridley to prepare and circulate a draft annual plan for the Committee.</li><li>• B Eade to send a governance matrix to J Ridley for consideration in developing the plan.</li><li>• R Bennett to send J Ridley the Charter of the Casey Council Audit Committee for consideration in developing the plan.</li><li>• J Ridley to include a review of Internal Audit Reports each quarter in the annual plan.</li></ul>		<p>Proposed Annual Plan presented to ARAC at 19 November 2018 meeting.</p>



## 7. AUDIT AND RISK ADVISORY COMMITTEE CHARTER REVIEW

### 7.1 Audit and Risk Advisory Committee Charter Review

**File Number:** E34  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

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

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

#### **Summary**

The Audit and Risk Advisory Committee Charter has been revised.

#### **Background**

The Charter was reviewed by and endorsed by Council at its Ordinary Council Meeting on 18 September 2018.

There was only one significant change made.

The previous Charter required 3 independent members to be appointed to the Committee. Council have amended the number of independent members to allow either 3 or 4 members to be appointed at Council's discretion.

#### **Statutory Requirements**

The Audit and Risk Advisory Committee is established in accordance with the requirements of s139 of the *Local Government Act 1989*.

The Charter of the Committee is endorsed by Council and dictates that Council shall carry out regular reviews of the Charter

#### **Council Plan**

Strategic Objective 5: Responsible Leadership

#### **Financial**

Each Committee member receives an annual stipend of \$900. The 2018-19 budget was formed on the expectation of 3 independent members, at a total cost of \$2,700. Council have subsequently appointed a fourth independent member which will incur an additional cost of \$900.

The stipend amount may be reviewed and amended by Councilors at any time during the year.

#### **Social**

The appointment of independent members to the Audit and Risk Advisory Committee allows for community participation in providing advice to Council on financial and risk matters.

#### **Environmental**

There are no environmental impacts in relation to this matter.



## 7.1 Audit and Risk Advisory Committee Charter Review cont.

### **Economic**

There are no significant economic impacts in relation to this matter.

### **Risk Management**

The Audit and Risk Advisory Committee is a key control in Council's risk management strategy. The appointment of independent members with proven skills in risk management is essential to ensuring successful oversight of Council's risk management function.

### **Community Engagement**

There has been no community engagement in relation to this matter.

### **Officer's Comments**

Public interest in the independent member positions can vary from year to year. Implementing a variable number of independent members allows for retention of highly skilled members at times when interest is high.

Retention of highly skilled members allows the Committee to operate at its most effective, as a key risk management tool of Council.

### **Attachments**

Audit and Risk Advisory Committee Charter 2018.

### **R. Bennett/H. Westendorp:**

**That the Audit and Risk Advisory Committee note the endorsed Audit and Advisory Committee Charter 2018.**

Carried





# ATTACHMENTS 7.1

AUDIT AND RISK ADVISORY COMMITTEE CHARTER  
(8 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 2018 to 31 October 2018

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

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

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

#### **Introduction**

This finance report provides information on Council's operating and capital performance against the 2018-19 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 26 June 2018, adopted the budget for the 2018-19 financial year. Variances have been reported against the Revised 2018-19 Budget (the adopted 2018-19 budget revised only for classification changes between departments to match the change in management reporting structure).

Permanent Variances are known differences to the budget that are certain.



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

Temporary Variances are differences between the actual result and the budgeted result at a point in time during the financial year, that have arisen due to a variance in the anticipated timing of the event/income/expenditure. These variances are expected to “catch up” as the financial year progresses.

### 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 2018-19 Budget by \$180k (2%). Major variances are summarised below.

#### Unfavourable Variances

- \$137k Plant Operating – plant expenditure is on budget, but the internal charge income is below budget. This variance is offset in other areas as a reduced cost from internal plant charges.
- \$130k Engineering Services – building maintenance is \$21k over budget (a reallocation between the capital building budget and operating is required). Assetic is \$148k over budget. Half of this (\$74k) relates to implementation costs brought



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

forward from future years of the 5 year contract (for ease and expedition of full use of the system) and the other half (\$74k) is just a timing difference.

- \$177k financial services – Financial Assistance Grant income is under budget \$246k (amount received early in the 2017-18 financial year). This is offset by interest income \$26k over budget (higher cash balances on hand) and \$32k savings in the wages budget (Finance Manager only 0.8 FTE until October 2018).
- \$268k salary & wages clearing – oncost recovery income under budget \$313k offset by LSL expense over budget \$71k.

### Favourable Variances

- \$94k Aged & Disability services – Planned Activities group grant income \$33k ahead of budget (temporary difference only due to timing variances – income is paid quarterly in advance). Commonwealth Home Support Program income is \$70k over budget due to income received quarterly in advance (temporary variance).
- \$66k Community development – L2P and Engage funding has been received in advance (\$25k and \$7k respectively), \$11k reduced wages at the Youth Centre (additional leave taken) and \$12k community development operations wages under budget as the Community & Cultural Connections coordinator role is currently at a lower FTE than budgeted
- \$66k Family Services & partnerships – Maternal & Child Health income received in advance for the Enhanced program (\$20k), and Integrated Family Services funding received in advance (\$30k).
- \$33k Customer services & records – the Kapish software upgrade has not yet been billed (\$26k) and lower wages due to staff leave (\$10k). This is offset by \$13k increase in TRIM costs for additional licenses.
- \$42k Field services – excess stock and unused items sold using the Grays Online auction house received \$19k in unbudgeted income. Delays in consultancy projects are behind a further \$20k timing variance.
- \$51k Parks & Gardens - \$23k under budget in plant hire which is just an internal charge. Remaining underspend is a timing variance generally across all areas, as works will increase over spring/summer.
- \$95k Road network maintenance – Internal plant charges under budget by \$115k (non-cash internal charge only – offset by plant income being under budget in the unfavourable variances). Rural and urban roads wages are under budget by \$100k due to vacancies and leave. These are offset with Financial Assistance Grant income under budget by \$109k (amount received early in the 2017-18 financial year).



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

- \$63k Corporate services – Predominantly wage underspend due to vacancies and extended leave not fully backfilled.
- \$65k Revenue services – Supps are \$86k over budget. Income of \$24k has been invoiced for printed rates notices (unbudgeted). This is offset by a delay in receipt of FSPL grant funding (\$49k).
- \$127k Strategic Planning - \$80k in grant funding received for Station Precinct Master Plan (only \$50k budgeted). Additional savings due to staff vacancy.

### **Capital Works:**

#### Capital Income & Expenditure Actual against Budget

The net year to date capital works variance (net of capital income) is \$78k unfavourable to the 2018-19 Budget. Major variances are predominately timing issues (temporary variances) with the exception of the following:

#### Unfavourable Variances

- \$11k Miscellaneous culvert works – design work for the Lakins Road culvert replacement. Unbudgeted, fully funded by unexpected Fixing Country Roads grant.
- \$107k Footpath reconstruction program – This project will be carried over from 2017-18 - \$113k grant funding from Vicroads, now completed in October 2018.
- \$17k Tennis hit up wall and hot shots courts – This project commenced in 2016-17 and has been completed in 2018-19.

A Confidential Report went to Council on 20 March 2018 to obtain Council endorsement of an overspend of \$64k due to scope changes occurring during the project and contract tenders. The completed project will be \$75k overspent.

The full project expenditure budget was spent in 2017-18 and therefore there are no funds to carry forward. There is still income of \$19,000 to come in 2018-19 which will offset the \$17k expense incurred this year.

#### Favourable Variances

- \$37k Howqua Track culvert replacement – This project was physically completed in 2017-18. Milestone reporting completed in August 2018 and final funding received. Total project finished \$14k over budget.
- \$10k Sale of land – unbudgeted income from sale of tree reserve at Redgum Court, Mansfield.



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

### **Overall Position:**

Operating Variance Favourable/(Unfavourable)	\$180,230
Capital Variance Favourable/(Unfavourable)	<u>\$ (78,372)</u>
Total Variance Favourable/(Unfavourable)	\$101,858

### **Balance Sheet:**

#### **Current Assets:**

Cash and investments total \$10.4m and includes \$9m general investments and \$277k for the Cemetery Trusts.

Net current receivables of \$9.8m, includes rates debt of \$9.5m, sundry debtors of \$149k, and loan debtors of \$37k. 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 (\$1.7m employee benefits & \$188k landfill) and trust funds of \$733k. Trust funds include \$277k Cemetery Trust, \$290k Refundable Deposits and \$166k Fire Services Property Levy. FSPL collections are held in trust until forwarded to the State Revenue Office.

#### **Current Ratio: 6.7 : 1**

The high working capital ratio is reflective of the full year rates income being raised in August and reported as a current asset (debtors). Only one of four instalments of rates notices has fallen due.

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

These include all infrastructure assets and for the purpose of this report the cost of the 2018-19 capital works has been treated as WIP and added to the balance sheet here.

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

Major items here include loan liability \$2.3m.

### **Carry Forward Projects**

The following projects approved in the 2017-18 (previous financial year) budget are recommended to be carried forward into 2018-19:

A. *Heavy Vehicle Bypass Route - \$815k expenditure*

The Heavy Vehicle Bypass (stage: sealing of Withers Lane and Deadhorse Lane West) was delayed due to contractor tenders coming in significantly over budget.



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

\$595k of expenditure from the 2017-18 budget, plus \$220k of income received in 2017-18 over and above the budgeted amount of \$280k, need to be carried over to spend in 2018-19 – total \$815k. Council have also secured additional funding from the Fixing Country Roads program that will be contributed towards this stage of the Heavy Vehicle Bypass. The project is expected to be completed this financial year.

### B. *Footpath Reconstruction Program - \$113k expenditure*

Council received an unbudgeted \$113k in funding from Vicroads in late 2017-18. The funding was for construction of unsealed footpath on the Midland Highway to the racecourse) and on Mt Buller Road. Both projects were delayed due to weather, and completed in October 2018-19. The expenditure to match the income therefore needs to be carried forward to 2018-19.

### C. *Bonnie Doon Community Centre - \$10k expenditure*

The refurbishment of the Bonnie Doon Community Centre stalled in 2017-18 while the funding body (Regional Development Victoria) and the Bonnie Doon Community Group negotiated the final designs for the project. Funds should be carried over and the project completed in 2018-19.

## Abandoned Capital Projects

The following projects approved in the 2017-18 budget but not commenced are recommended to be abandoned.

### A. *Alpine Ridge Road Reconstruction - \$567k*

This project was cancelled in 2017-18 due to both a lack of physical resources and concerns that market changes were indicating the initial project budget would not be sufficient. A subsequent revision of road priorities over the next 5 years suggest this project should be abandoned this year, and loaded back into the long term financial plan for a few years' time.

### B. *Lochiel Road Reconstruction - \$206k*

Reassessment of Lochiel Road led to an alternative treatment being performed that was funded with the 2017-18 Road Reseals budget. The reconstruction project is no longer required at this time and should be abandoned.

## **P. Volkering/D. Mackenzie:**

**1. That the Audit and Risk Advisory Committee note the Finance Report for the period 1 July 2018 to 31 October 2018.**

Carried



# ATTACHMENTS 8.1

2018 FINANCE REPORT  
(10 PAGES)





## 8.2 Annual Governance Schedule

**File Number:** E3627  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

### Disclosure of Conflicts of Interest

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

### Introduction

An annual schedule has been prepared to guide the timing of items the Committee is required to review and / or consider.

### Background

Committee member (and Chairperson) Janine Ridley has prepared an annual schedule (see attachment) for the Committees' consideration and adoption. The schedule is intended to provide a proposed timeline of when items will come before the Committee for consideration and review.

### Statutory Requirements

There are no statutory requirements.

The Schedule includes the items specified within the Charter of the Audit and Risk Advisory Committee.

### Council Plan

The Audit and Risk Advisory Committee supports delivery of the Financial Sustainability and Responsible Governance themes in the 2017-21 Council Plan.

### Financial

There are no financial implications in this matter.

### Social

There are no social implications in this matter.

### Environmental

There are no environmental implications in this matter.

### Economic

There are no environmental implications in this matter.

### Risk Management

An Annual Schedule assists the committee to ensure it meets its requirements under the Charter.

### Community Engagement

There is no community engagement required on this matter.

### Attachments

Audit and Risk Advisory Committee Annual Governance Schedule 2018-19.



## 8.2 Annual Governance Schedule cont.

### **Officer's Comments**

An Annual Schedule is a tool that will assist the Committee in meeting their monitoring requirements under the Charter. It is also a tool that will assist Officers in managing workloads to deliver information to the Committee to enable them to discharge their duties.

Officers have reviewed the proposed Schedule and are comfortable with the timing within.

**P. Volkering/D. Mackenzie:**

**That the Committee adopt the Audit and Risk Advisory Committee Annual Governance Schedule 2018-19.**

Carried



# ATTACHMENTS 8.2

A&RAC ANNUAL GOVERNANCE SCHEDULE 2018-  
2019  
(1 PAGE)



### 8.3 VAGO Management Letter Issues

**File Number:** E5017  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

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

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

#### **Introduction**

A progress report as at 12 November 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

#### **Economic**

There are no economic implications in relation to this matter



### 8.3 Vago Management Letter Issues cont.

#### **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.

#### **Attachments**

1. VAGO Final Management Letter 2017-18
2. VAGO Management Letter Point Status Report

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

The VAGO Management Letter Points status report has been updated for the Final Management Letter issued by VAGO on completion of the 2018 audit, and discussed verbally with the audit partner at the August 2018 ARAC meeting.

#### **R. Bennett/P. Volkering:**

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

- **note the attached VAGO Management Letter Point status report; and**
- **note the attached VAGO Final Management Letter 2017-18**

Carried



# ATTACHMENTS 8.3

FINAL MANAGEMENT LETTER  
(14 PAGES)

VAGO MANAGEMENT LETTER POINTS STATUS  
REPORT  
(2 PAGES)



## 9. 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.

### 9.1 Internal Audit Status Update

**File Number:** E34  
**Responsible Officer:** Finance Manager

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

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

#### **Introduction**

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

#### **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.

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

## 9.1 Internal Audit cont.

### 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

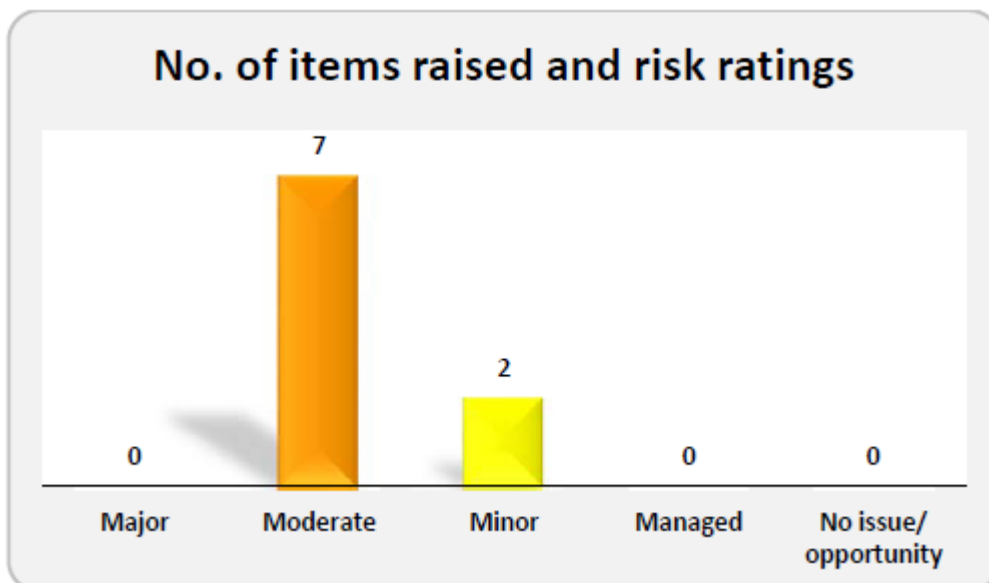
There has been no external communication in relation to this matter.

### Officer's Comments

There has been one internal audit conducted since the previous Audit and Risk Advisory Committee meeting in August 2018.

### Risk Management

Internal audit reviewed our risk management procedures. A summary of the results is shown below.



The final Internal Audit report is attached in full for the Committee's information. All management actions identified therein have been raised in OMNI for progress tracking.





## 9.1 Internal Audit cont.

### Attachments

1. Risk Management Internal Audit Report
2. Internal Audit Actions Status Report.
3. Internal Audit Program Status Update.
4. Audit Committee Quarterly Update.

#### **P. Volkering/D. Mackenzie:**

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

- 1. receive and note the final Risk Management Internal Audit report;**
- 2. receive and note the Internal Audit Actions Status Report;**
- 3. receive and note the Internal Audit Program Status Update;**
- 4. receive and note the Audit Committee Quarterly Update.**

Carried

#### **R.Bennett/D. Mackenzie**

**That a report be presented to Council recommending resourcing of Risk Management through contractor.**

Carried



# ATTACHMENTS 9.1

AFS INTERNAL AUDIT RISK MANAGEMENT REPORT  
(32 PAGES)

INTERNAL AUDIT STATUS REPORT  
(5 PAGES)

AFS INTERNAL AUDIT PROGRAM STATUS UPDATE  
(3 PAGES)

AFS COMMITTEE QUARTERLY UPDATE  
(5 PAGES)



## 9.2 Procedural Exceptions

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

### Disclosure of Conflicts of Interest

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

### 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 5 procedural exception memorandums authorised by the CEO since the previous ARAC meeting in August 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.

### Social

There is no significant social impact in relation to this matter

### Environmental

There are no environment impacts related to this matter



## 9.2 Procedural Exceptions cont.

### **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 community engagement on the matter.

### **Attachments**

1. Procedural Exception Memo (PEM) – Dawn Bray Consulting
2. PEM – Electronic entry system at Sporting Complex
3. PEM - Fire Hazard Inspections 2018-19
4. PEM – Momentum One (Mansfield Swimming Pool Lifeguards)
5. PEM – Planning consultant Grant Scale

### **Officer's Comments**

The full memorandums are attached for the Committee's information.

### **H. Westendorp/R. Bennett:**

**That the Audit and Risk Advisory Committee note the Procedural Exceptions Memorandums authorised by the Chief Executive Officer.**

Carried



# ATTACHMENTS 9.2

PROCEDURAL EXCEPTION MEMORANDUMS  
(15 PAGES)



### 9.3 Mansfield Shire Council Investment Schedule

**File Number:** E5001  
**Responsible Officer:** Senior Accountant, Belinda Langlands

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

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

#### **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 31 October 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

#### **Attachments**

Investment Portfolio report 31 October 2018

#### **Officers Comments**

The Investment Portfolio report is attached for the Committees information.  
Council is currently compliant with its Investment Policy.

#### **P. Volkering/D. Mackenzie:**

**That the Audit and Risk Advisory Committee receive and note the Investment Schedule Report.**

Carried



# ATTACHMENTS 9.3

INVESTMENT REPORT  
(2 PAGES)



## 10. 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.

### 10.1 Risk Management 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 and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

#### Introduction

This report provides an update on Council's Top 5 Risks. A copy of the OMNI report is attached.

#### Background

The identified Top 5 risks for Council are recorded and actions monitored through OMNI Councils' reporting software.

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.

#### Financial

No financial implications





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

### Risk Management

Council's Risk Register forms part of Council's Risk Management Framework. Council's Risk Management Framework including Council's Risk Management Strategy, Policy and Procedure are currently in draft.

### Officer's Comments

Of the 23 deliverables within OMNI, 15 deliverables have been closed out. No deliverables were closed out this quarter. Eight deliverables remain open.

Of the 8 deliverables that remain open, 1 is ongoing and 7 are overdue. The 7 overdue deliverables are listed below:

1. Strategic Risk 1 – Council Strategic Direction – Development of departmental business plans to integrate Council Plan actions into staff work plans and project plans remains unchanged in OMNI at 10%.
2. Strategic Risk 2 – Financial Sustainability – Preparation of Asset Management Plans is identified in OMNI at 70% complete. However, Asset Management Bureau Service was only appointed to commence as of August 2018 and Asset Management Plans are yet to be established and implemented.
3. Strategic Risk 2 – Financial Sustainability – Improve grants management processes in accordance with the grants management internal audit findings remains at 80%.
4. Strategic Risk 2 – Financial Sustainability – Improved capital works planning, monitoring and delivery is identified in OMNI at 60% complete. However, Asset Management Bureau Service was only appointed to commence as of August 2018.
5. Strategic Risk 2 – Financial Sustainability – Improve project management procedures and tracking is identified in OMNI at 80%.
6. Strategic Risk 3 – Governance and Reputation Risks – Review of out of date Council policies and procedures to ensure currency and accuracy remains at 0%.
7. Strategic Risk 5 – Risk Management – Develop and adopt a Business Continuity Plan remains at 90%.

**R. Bennett/D. Mackenzie:**

**That the Audit and Risk Advisory Committee receive this report.**

Carried



# ATTACHMENT 10.1

OMNI REPORT

(3 PAGES)



## 10.2 Policy Register Status Update

**File Number:** E3627  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

### Disclosure of Conflicts of Interest

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

### Introduction

The policy register is provided to the ARAC for review.

### Background

The Governance Administration Officer maintains a register of all policies and their review dates. The Governance team have recently revised the internal procedure for creating and review of policies. The basic process is:

1. Create new draft policy or revise existing policy
2. Review by Manager
3. Review by Senior Leadership Group
4. Review by Advisory Committee (where required)
5. ORGANISATIONAL POLICIES – signed by CEO
6. COUNCIL POLICIES – Council briefing, followed by Council meeting for adoption.
7. Register updated. Policy TRIMMED.

The new process and the register has been tabled at the Senior Leadership Group meeting on 14 November 2018 for discussion.

The Governance Administration Officer will work to get all policies up to date as soon as possible. Policies up for revision will be notified to Managers 4 months prior to revision date to allow time to comply with the review process.

### Statutory Requirements

There are no statutory requirements.

### Council Plan

Policy management falls under the Responsible Governance theme in the 2017-21 Council Plan.

### Financial

There are no financial implications in this matter.

### Social

There are no social implications in this matter.

### Environmental

There are no environmental implications in this matter.

### Economic

There are no economic implications in this matter.



## 10.2 Policy Register Status Update cont.

### **Risk Management**

A robust review and policy management process minimises the risk of out of date policies and non-compliance with policies.

### **Community Engagement**

There is no community engagement required on this matter.

### **Attachments**

Policy Register as at 25 October 2018.

### **Officer's Comments**

Policy management has been identified as a weakness in recent internal audit reviews. The Governance team is now focussing on driving improvement in this area.

### **D. Mackenzie/P. Volkering:**

**That the Committee note the Policy Register as at 25 October 2018.**

Carried



# ATTACHMENT 10.2

POLICY REGISTER AS AT 25 OCTOBER 2018  
(2 PAGES)



### 10.3 Procurement and Contract Management Policies

**File Number:** E34  
**Responsible Officer:** Finance Manager, Mandy Kynnersley

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

The author of this report and officers providing advice in relation to this report do not have a direct or indirect interest in this matter, as provided in accordance with the *Local Government Act 1989*.

#### **Summary**

The Procurement and Contract Management Policies have been updated and are presented to the Audit and Risk Advisory Committee (ARAC) for review and recommendation to Council.

#### **Background**

The Charter requires the ARAC to review the Procurement Policy.

Council appointed a procurement officer in April 2018. Previously this position did not exist. The procurement officer has been working through the existing policies and procedures, and Internal Audit actions from the recent Contract Management and the Procurement audit reviews.

The resulting documents are attached for the ARAC to review and comment.

#### **Statutory Requirements**

The Audit and Risk Advisory Committee is established in accordance with the requirements of s139 of the *Local Government Act 1989*.

#### **Council Plan**

Strategic Objective 5: Responsible Leadership

#### **Financial**

There are no direct financial impacts of these policies, although they do govern the allocation of financial resources.

#### **Social**

There are no significant social impacts in relation to this matter.

#### **Environmental**

There are no significant environmental impacts in relation to this matter.

#### **Economic**

There are no significant economic impacts in relation to this matter – local tendering is incorporated into the procurement policy.

#### **Risk Management**

Policies and procedures around procurement and management of contracts are key mitigating controls of financial risk.



### 10.3 Procurement and Contract Management Policies cont.

#### Community Engagement

There has been no community engagement in relation to this matter.

#### Officer's Comments

The procurement and contract management policies have had a significant overhaul now that Council has a dedicated procurement officer.

For now, the contract register remains in excel, but once the policies and procedures have been bedded down, the next step is to ensure technology is utilised (where cost allows) to create efficiencies in these processes.

#### Attachments

1. Procurement policy
2. Contract Management policy
3. Contract register

#### **R. Bennett/D. Mackenzie:**

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

- 1. Recommend the adoption of the Procurement Policy 2018 to Council;**
- 2. Note the Contract Management Policy 2018; and**
- 3. Note the Contract Register as at 14 November 2018.**

Carried



# ATTACHMENT 10.3

AMENDED PROCUREMENT POLICY AND  
PROCEDURES  
(52 PAGES)

CONTRACT MANAGEMENT POLICY AND  
PROCEDURES  
(24 PAGES)

CONTRACT REGISTER  
(PROVIDED UNDER SEPARATE COVER)





## 11. OTHER BUSINESS

- 11.1 Sale of Lot 2002 Kitchen Street
- 11.2 Sale of former Saleyards site.
- 11.3 Rate variation community engagement video.
- 11.4 Contractor payment rates

## 12. NEXT MEETING

The next meeting of the Audit and Risk Advisory Committee will be held on Monday, 18 February 2019 in the Council Chamber commencing at 4.30 pm for Committee members with officers attending from 5.00 pm.

## 13. CLOSURE OF MEETING

There being no further business the meeting concluded at 6.49 pm.

CONFIRMED this **Eighteenth** day of February 2019.

\_\_\_\_\_  
Chair