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SUMMARY REPORT OF THE AUDIT COMMITTEE MEETING

Held on Monday 4 December 2017

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MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF THE DAREBIN CITY COUNCIL HELD AT DAREBIN CIVIC CENTRE 350 HIGH STREET PRESTON ON MONDAY 4 DECEMBER 2017

THE MEETING OPENED AT 2.31 PM

Prior to commencement of the meeting the Chairperson advised that Council, at its meeting on Monday 13 November 2017 appointed Cr. Kim Le Cerf (Mayor) and Cr. Susan Rennie as the City of Darebin's representatives to the Audit Committee.

New independent member Dr Marco Bini was welcomed to the Audit Committee by the Chairperson. Dr Bini gave a brief overview of his work background; most recently he was with the Auditors office for 10 years, is a Lawyer by trade, specialises in Governance, spent five years at DCP and time in private practice.

1. PRESENT

Members

Mr Terry Richards (Chairperson)

Ms Lisa Tripodi (Independent External Member)

Dr Marco Bini (Independent External Member)

Cr. Kim Le Cerf (Mayor) (Committee Member)

Cr. Susan Rennie (Committee Member)

Internal Auditor

Mr Martin Thompson (Senior Partner, Audit and Assurance – Crowe Horwath)

External Auditor

Mr Remy Szpak (Financial Audit Manager – VAGO)

Officers

Ms Sue Wilkinson - Chief Executive Officer

Mr Andrew McLeod - Director Corporate Services

Mr Allan Cochrane – Chief Financial Officer

Mr Michael O'Riordan – Financial Accountant

Ms Gracie Karabinis – Manager Corporate Risk and Audit

Minutes

Ms Melanie Nitchov - PA to Director Corporate Services

2. APOLOGIES

Ms Jacinta Stevens - Director Civic Governance and Compliance

3. DISCLOSURES OF CONFLICTS OF INTEREST

Nil

4. REGISTER OF INTERESTS

Audit Committee members are asked to declare any conflicts of interest. The following record of members' disclosures will remain until amended by the member concerned.

Mr Terry Richards

- Latrobe City Council

Ms Lisa Tripodi

- City of Greater Geelong
- City of Moonee Valley
- Knox City Council
- Mornington Peninsula Shire Council

Dr Marco Bini

- Dr Bini stated that he had some interests but no conflicts.

5. CONFIRMATION OF THE PREVIOUS AUDIT COMMITTEE MEETING

Committee Decision

MOVED: Mr T Richards
SECONDED: Ms L Tripodi

That the Minutes of the Audit Committee Meeting held on 2 October 2017 be confirmed as a correct record of business transacted.

CARRIED

6. STANDING REPORTS

Nil

7. FINANCIAL REPORTS

7.1 FINANCIAL REPORT - 4 MONTHS ENDED 31 OCTOBER 2017

Author: Financial Accountant

Reviewed By: Director Corporate Services

Report Background

Under the Local Government Act 1989, at least every three months the Chief Executive Officer is required to present to the Council a statement comparing the budgeted with the actual revenues and expenses for the financial year to date.

Previous Council Resolution

This matter is not the subject of a previous Council resolution.

Previous Briefing(s)

This matter has not previously been to a Councillor Briefing.

Council Plan Goal/Endorsed Strategy

Goal 6 – A leading, modern and open Council

Summary

A comprehensive financial review has been undertaken for the four months ended 31 October 2017 to assess the financial performance of Council year-to-date. The outcome of the review indicates that Council has achieved a year-to-date operating surplus of \$88.40 million, which is \$5.14 million ahead of budget and capital works expenditure of \$6.30 million, which is \$4.17 million behind the budget.

All material variations have been explained in the report.

Committee Decision

MOVED: Mr T Richards
SECONDED: Cr. K Le Cerf

That the Audit Committee receives the contents of the “Financial Report for the four months ended 31 October 2017” included as **Appendix A** to this report and notes the year-to-date actual and budget operating and capital results.

CARRIED

7.2 CAPITAL WORKS PERFORMANCE 2016/17**Author:** Chief Financial Officer**Reviewed By:** Director Corporate Services

Report Background

This report is to provide information on the delivery of capital works projects for the financial year ended 30 June 2017.

Previous Council Resolution

This matter is not the subject of a previous Council resolution.

Previous Briefing(s)

This matter has not previously been to a Councillor Briefing.

Council Plan Goal/Endorsed Strategy

Goal 6 - A well governed Council

Summary

A comprehensive financial review has been undertaken of the expenditure on capital works projects for the financial year ended 30 June 2017 which was \$31,433,780 against a published budget of \$35,840,000.

Of the 155 projects listed on the attached report, 80 have been completed (51.6%), three abandoned, 11 to be completed from 2017/18 program of works (no carry forward) and 61 carried forward for completion in 2017/18 or later years.

Carry forwards from the 2016/17 capital work projects are \$12,197,929 related to future expenditure and \$1,533,554 related to future project revenue.

Committee Decision

MOVED: Mr T Richards**SECONDED:** Cr. S Rennie

That the Audit Committee receives the content of this report on the capital works performance for the year ended 30 June 2017.

CARRIED

7.3 CAPITAL WORKS PERFORMANCE - 4 MONTHS ENDED 31 OCTOBER 2017**Author:** Chief Financial Officer**Reviewed By:** Director Corporate Services

Report Background

This report is to provide information on the delivery of capital works projects for the four months ended 31 October 2017.

Previous Council Resolution

This matter is not the subject of a previous Council resolution.

Previous Briefing(s)

This matter has not previously been to a Councillor Briefing.

Council Plan Goal/Endorsed Strategy

Goal 6 - A well governed Council

Summary

A comprehensive financial review has been undertaken of the expenditure on capital works projects for the financial year ended 31 October 2017 which was \$6.30 million against a year to date budget of \$10.47 million.

Of the 159 projects listed for completion in 2017/18, project managers have indicated six (4%) projects have been completed, 120 (75%) projects are on track, 25 (16%) projects have been identified as having a risk of not being completed in 2017/18, and eight (5%) projects have not started.

Committee Decision

MOVED: Mr T Richards**SECONDED:** Ms L Tripodi

That the Audit Committee receives the Capital Works Performance - 4 months ended 31 October 2017 report.

CARRIED

8. RISK MANAGEMENT

8.1 CORPORATE RISK MANAGEMENT AND BUSINESS CONTINUITY PLANNING

Author: Manager Corporate Risk and Audit

Reviewed By: Director Corporate Services

Summary

As a regular requirement of the Audit Committee, the Manager Corporate Risk and Audit is responsible for providing progress reports on the ongoing implementation of Council's Risk Management Framework.

This report provides an update of Council's current risk management status in relation to its Proactive Risk Management projects, practices and performance as well as Business Continuity Planning.

Committee Decision

MOVED: Mr T Richards
SECONDED: Cr. S Rennie

That the Audit Committee receives and notes this report.

CARRIED

9. INTERNAL AUDIT

9.1 MEMORANDUMS OF AUDIT PLANNING

Author: PA to Director Corporate Services

Reviewed By: Director Corporate Services

Summary

As part of the implementation of Council's audit program for 2017, Crowe Horwath has prepared Memorandums of Audit Planning (MAPs) for the following upcoming audits:

- Infringements and Permits Management (Local Laws)
- Follow-Up of Selected High Risk Matters Raised in Prior Internal Audit Reports Review

These MAPs were sent to the Audit Committee and Executive Management Team with the opportunity for comment before being signed off by the Director Corporate Services.

Consultation

- Audit Committee
- Executive Management Team

Committee Decision

MOVED: Mr T Richards

SECONDED: Cr. K Le Cerf

That the Audit Committee receives and notes the following MAPs prepared by the internal auditors Crowe Horwath: Infringements and Permits Management (Local Laws), and Follow-Up of Selected High Risk Matters Raised in Prior Internal Audit Reports Review.

CARRIED

9.2 INTERNAL AUDIT PROGRESS REPORT AND RECENT REPORTS AND PUBLICATIONS**Author:** PA to Director Corporate Services**Reviewed By:** Director Corporate Services

Summary

The internal auditors, Crowe Horwath, have provided a report as at 14 November 2017 to update the Audit Committee on Council's internal audit activity since the meeting held on 2 October 2017. The two additional projects requested by Audit Committee at the July and August 2017 meeting are also shown.

The report also lists Recent reports and publications that may be of interest to Council (July 2017 – September 2017).

Consultation

- Executive Management Team
- Senior Management

Committee Decision

MOVED: Mr T Richards
SECONDED: Dr M Bini

That the Audit Committee receive and note the attached Internal Audit Progress report as at 14 November 2017 and Recent reports and publications (July 2017 – September 2017), prepared by the internal auditors, Crowe Horwath.

CARRIED

9.3 ASSET PROTECTION REVIEW**Author:** Manager Planning and Building**Reviewed By:** Director Corporate Services

Summary

The Asset Protection service operates to protect Council Assets and general residential amenity in regard to building activity within the City. The service operates at a net profit and has been reviewed to ascertain whether the service can be made more efficient and effective and whether actions can be taken to mitigate any risks identified.

The report has identified the need and opportunity for process and system improvement, combined with control mechanisms to reduce the exposure to certain risks. Many of the weaknesses within the report point to the need to provide a better alignment between the various units of Council that the service relies upon to be delivered. For instance a whole of Council approach is required to address the level of outstanding bonds which currently sits at \$4.4m that was identified as the single major risk within the report. A systematic approach is required together with improved management oversight to actively review the currency of outstanding bond monies.

The following section provides a summary of the report findings in relation to other key (lower risk) findings:

Policies & Procedures

- The policies and processes are due for review.
- The tracking of customer complaints is limited and requires improvement.

Use of Technology

- The Pathway software system requires a reporting capability to allow the monitoring of permits, tracking of Site Compliance Officer and workflow processes, together with capabilities of measuring performance and compliance with service standards such as inspections due to be completed within 36 hours.

Data Collection

- There is an over reliance on manual systems.
- Remote inspection processes are not readily integrated with central systems requiring a duplication of effort in field work and office work.
- Performance measurement capabilities are largely manual.

Role of Local laws

- There is segregation between the issue of infringements and the appeal process and inadequate transfer of information between the Building department and the Appeal Panel which is overseen by Local Laws. This means the inspector is not providing comment on appeal requests or given feedback on why appeals are upheld.
- Management oversight of the infringement process is lacking.

The Bond Process

- The report notes that \$1.5m in bonds has been collected in the past 12 months.
- Documentation requires improvements on the role of the Site Compliance Officer on the assessment criteria governing the decision to return or part refund bonds.
- The adequacy of the \$1,500 bond requires review.

Debtor Management

- There is no management reporting in place to identify in any routine way to identify any unpaid Asset Protection Permit fees.

Consultation

- Director Corporate Services
- Municipal Building Surveyor
- Executive Manager Finance
- Coordinator Civic Compliance
- Building Site Compliance Officer
- Manager Health and Compliance
- Financial Accountant

Committee Decision

MOVED: Mr T Richards

SECONDED: Cr. K Le Cerf

That:

- (1) the Audit Committee note the attached report, "*Asset Protection*" (Crowe Horwath, 2017) is a work in progress.
- (2) an updated report comes to the Audit Committee in February 2018.

CARRIED

9.4 ROAD MANAGEMENT PLAN COMPLIANCE REVIEW EXECUTIVE SUMMARY

Author: Manager City Works and Contracts

Reviewed By: Director Corporate Services

Summary

The Road Management Plan Compliance Review as attached was undertaken to assess whether the procedures and practices are operating satisfactorily. Objectives of the audit were to:

Review the adequacy of:

1. Council's processes for meeting its obligations under its Road Management Plan
2. The recording and complying with the RMP's asset inspections
3. Recording, prioritising and complying with the RMP's road maintenance standards and defect response;
4. Reporting of RMP compliance to senior management;
5. RMP IT System, including capture of inspections, prioritisation and actioning of works, system generated reporting, escalation processes.

Council have a current Road Management Plan (RMP) that has been prepared in accordance with the Road Management Act 2004 however it was found that the current controls in place for Council would benefit from strengthening. The audit identified a range of controls that should be implemented and improved in order to reduce the identified weaknesses and exposures.

The report notes the two following high risk issues:

1. The level of non-compliant activity under the RMP relating to asset inspections for specific asset types, kerb and channel and bicycle shimmy, is not known to management.

Management Response:

Shimmy routes are now in CAMS however a new Kerb and Channel layer in GIS will need to be developed with the assistance of IT. Shimmy routes have correct inspection frequency dates in GIS however work is required to reflect the dates in CAMS. Reports will be generated to allow better monitoring on each asset type once the new Kerb and Channel layer has been developed. Weekly non-conformance reporting to manager will be undertaken in the interim.

2. The level of non-compliant activity under the RMP relating to defect rectification work orders.

Management Response:

An internal audit conducted for open work orders with two day timelines found that physical works had been completed however the associated work orders had not been closed off in the system. This is partly due to work order duplication.

A new compliance report is in its demonstration stage where noncompliance is identified. Weekly meetings with Manager to investigate noncompliance until issues have been rectified are intended.

All other audit findings were supported by management and appropriate respondent controls are underway or planned to address medium and low risk process deficiency.

Consultation

- Oliver Vido – Director Operations & Environment
- Brett Grambau – Coordinator Infrastructure Maintenance & Support
- Robin Ibbetson – Infrastructure Inspections Coordinator
- Edward Ward – Infrastructure Maintenance Coordinator
- Hanna Lopez – Inspections Officer
- Amit Khairajani – Coordinator Digital Strategy
- Ben Crocket – Solution Developer Team Leader GIS

Committee Decision

MOVED: Mr T Richards
SECONDED: Cr. S Rennie

That the Audit Committee receive and note the attached report; Road Management Plan Compliance Review prepared by the Internal Auditors, Crowe Horwath.

CARRIED

9.5 OUTSTANDING INTERNAL AUDIT ACTIONS**Author:** Manager Corporate Risk and Audit**Reviewed By:** Director Corporate Services

Summary

This report provides an update on progress towards addressing outstanding internal audit recommendations as at 31 October 2017, following the desktop review conducted by Crowe Horwath in August 2017.

At the time of Crowe Horwath's review, and acknowledging the report they were assessing against was inaccurate, a total of 99 recommendations were identified with the following observations:

- 51 or 51% of the total management comments recorded were inadequate; and
- Of the 51, 54% (28) did not record a 'latest management comment' as at June 30, 2017

The findings of the review were presented to the Executive Management Team on 26 September 2017 and as a result, an internal assessment was undertaken by the Corporate Risk and Audit team. It was agreed with members of the Executive team that an agreed action plan will be developed to address the outstanding recommendations.

As a result of the internal assessment, an agreed action plan was presented to the Executive Management Team on 31 October 2017 addressing all outstanding audit recommendations up until 30 September 2017.

The internal assessment found 58 outstanding recommendations identified and the findings from the assessment are summarised below:

- 15 of the recommendations have been addressed and completed
- 33 agreed actions have been identified with timeframes of completion
- 28% of recommendations have a target completion date by December 2017.
- 70% of recommendations have a target completion date by July 2018

Corporate Risk and Audit will monitor the action plan and communicate with responsible officers monthly to ensure completion dates are on target and the Executive Management Team will receive monthly progress reports against the Action Plan.

The attached report provides a summary of the 33 recommendations that remain outstanding, with the agreed actions identified with timeframes of completion.

Consultation

- Executive Management Team
- Senior Officers
- Risk and Insurance Advisor
- Council Officers with assigned internal audit recommendations

Committee Decision

MOVED: Mr T Richards
SECONDED: Ms L Tripodi

That the Audit Committee receives and notes this report on Outstanding Internal Audit Actions Council

CARRIED

9.6 VAGO DRAFT EXTERNAL AUDIT STRATEGY 2017-2018**Author:** Chief Financial Officer**Reviewed By:** Director Corporate Services

Summary

The draft audit strategy for the year ending 30 June 2018 has been prepared by the Victorian Auditor-General's Office (VAGO), and sets out their approach to the audit of the Darebin City Council financial report, standard statements and performance statement for 2017-2018.

Consultation

- Director Corporate Services
- Chief Financial Officer
- Financial Accountant

Committee Decision

MOVED: Mr T Richards
SECONDED: Cr. K Le Cerf

That the Audit Committee receive and note the attached report titled Audit Strategy – Darebin City Council for the Year Ended 30 June 2018 prepared by the Victorian Auditor-General's Office.

CARRIED

10. PROCUREMENT

Nil

11. GOVERNANCE

Nil

12. CONFIDENTIAL

Nil

13. OTHER BUSINESS

Dr Bini queried which provider was selected for the Preston Data Centre reversion to Cloud (reported to the Audit Committee on 2 October 2017 at Item 8.1). The DCS confirmed that Azure was the provider, with Data Centres located in both Victoria and New South Wales.

The CEO reported that last Tuesday EMT met with the CEO of the Independent Broad-Based Anti-Corruption Commission (IBAC), Alistair Maclean and some of his Senior Executives to discuss trends in the sector, mandatory requirements and protected disclosures. The meeting was very productive and important for positioning Council proactively and positively with a key governance stakeholder in our sector.

14. NEXT MEETING

The next meeting of the Audit Committee will be held at on Monday 19 February 2018 in the Darebin Civic Centre, 350 High Street Preston.

15. COMMITTEE MEMBERS CONFERENCE

Nil

16. CLOSE OF MEETING

The meeting closed at 4.18pm.