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SUMMARY MINUTES OF THE AUDIT COMMITTEE MEETING

Held on Thursday 22 March 2018

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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 THURSDAY 22 MARCH 2018**

THE MEETING OPENED AT 2.35PM

1. PRESENT

Members

Mr Terry Richards (Chairperson)

Ms Lisa Tripodi (Deputy Chairperson)

Dr Marco Bini (Independent External Member)

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

Cr. Susan Rennie (Committee Member)

Internal Auditor

Mr Garry Leon – Senior Manager, Risk Consulting – Crowe Horwath

External Auditor

Mr Remy Szpak – Financial Audit Manager - VAGO

Officers

Ms Sue Wilkinson - Chief Executive Officer

Ms Ingrid Bishop - General Manager Governance & Engagement

Mr Vito Albicini - General Manager Operations & Capital

Mr Allan Cochrane - Manager Finance

Mr Michael O’Riordan - Financial Accountant

Mr Darren Rudd - Manager City Development

Ms Katina Angelofsky - Manager People & Development

Mr Suman Nagpal - Coordinator Asset Systems

Minutes

Ms Marisa Schiavello - A/Personal Assistant to General Manager Governance & Engagement

2. APOLOGIES

Mr Martin Thompson - Senior Partner, Audit & Assurance - Crowe Horwath

3. DISCLOSURES OF CONFLICTS OF INTEREST

Nil

4. REGISTER OF INTERESTS

Audit Committee members are asked to declare any conflicts of interest. No conflicts of interest were declared and 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

- Nil

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 4 December 2017 be confirmed as a correct record of business transacted.

CARRIED

6. STANDING REPORTS

6.1 REVISED AUDIT COMMITTEE MEETING SCHEDULE FOR 2018

Author: PA to Director Corporate Services

Reviewed By: Acting Director Corporate Services

Summary

As per the Audit Committee Charter, the Committee is required to meet at least four times a year, with the authority to convene additional meetings, as circumstances arise.

At the meeting on 2 October 2017, the Audit Committee adopted the proposed meeting dates of 5 February, 7 May, 27 August (Ordinary and Financials), and 12 November 2018.

After discussion between the Audit Committee Chair and Chief Executive Officer, the following are the proposed new meeting dates for the Audit Committee for the rest of 2018:

- Monday 4 June
- Monday 27 August (Financials only)
- Monday 3 December

All meetings will take place at the Darebin Civic Centre, 350 High Street, Preston.

Consultation

- Chief Executive Officer
- Audit Committee Chair

Committee Decision

MOVED: Mr T Richards

SECONDED: Cr. K Le Cerf

That the Audit Committee adopts the revised proposed Audit Committee meeting schedule of 4 June, 27 August (Financials only), and 3 December 2018.

CARRIED

7. FINANCIAL REPORTS

7.1 2017/18 MID-YEAR BUDGET REVIEW

Author: Financial Accountant

Reviewed By: Acting Director Corporate Services

Report Background

Under the *Local Government Act 1989*, at least every 3 months, the Chief Executive Officer must ensure that a statement comparing the budgeted revenue and expenditure for the financial year with the actual revenue and expenditure to date is presented to the Council at a Council meeting which is open to the public.

Previous Council Resolution

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

Previous Briefing(s)

Councillor Briefing - This matter has not previously been to a Councillor Briefing.

Council Plan Goal/Endorsed Strategy

Goal 6 – A leading, modern and open Council

Summary

The mid-year financial review assessed the financial performance of Council year-to-date to 31 December 2017.

The outcome of the review indicates that Council has achieved a year-to-date operating surplus of \$70.17 million, which is \$6.50 million ahead of budget. The year-to-date capital works expenditure was \$10.93 million, which is \$6.61 million behind the budget.

The forecast result for the year ending 30 June 2018 is an operating surplus of \$13.03 million and capital works expenditure of \$46.28 million. The forecast underlying result for the year ending 30 June 2018 is a surplus of \$5.26 million.

Committee Decision

MOVED: Mr T Richards

SECONDED: Ms L Tripodi

That the Audit Committee:

- (1) Receives the contents of the "Financial report six months ended 31 December 2017" included as **Appendix A** to this report and notes the year to date financial results against budget;

- (2) Notes the recommended capital works budget adjustments as detailed in the “Mid-year Capital Works Projects requiring budget adjustment” included as **Appendix B** to this report.

CARRIED

7.2 COUNCIL INVESTMENT PERFORMANCE REPORT 6 MONTHS ENDED 31 DECEMBER 2017

Author: Financial Accountant
Assistant Accountant

Reviewed By: Acting Director Corporate Services

Report Background**Legislative framework**

Council is governed by the *Local Government Act 1989* ("the Act") which contains specific provisions on investments. The relevant sections of the Act are included in **Appendix A** of this report.

The current policy provides a framework within which the investment of Council funds is to be undertaken by authorised Council officers. The policy sets out:

- Objectives being pursued through the investment of surplus funds
- Legislative requirements
- Types of approved investments
- Parameters for exposure to credit risk, product risk and institutional risk
- Criteria to assist in selecting investments
- Processes for evaluating and reporting investment performance against established benchmarks.

Ethical and sustainability considerations

To strengthen Council's commitment to socially responsible investments the current investment policy was amended in June 2013 to include under the section of 'objectives / principles' the following statement;

'All financial institutions to be selected for investments must indicate their commitment to core values of integrity, trust, customer service and the highest ethical standards along with their strong commitment to Corporate Social Responsibility (CSR)'.

Additional guidance surrounding the divestment in financial institutions directly investing in the fossil fuel industry was included into Council's investment policy in June 2017.

To ensure Council will move away from directly investing in any company for whom the extraction, production, refining, or distribution of fossil fuels forms a core part of their business strategy, or in any company whose principal business involves providing infrastructure or services to companies previously mentioned, Council will adopt a positive screening approach for Council's investment with financial institutions.

Council's investment strategy is to give preference to authorised deposit-taking institutions that state they do not finance fossil fuel projects if the investment transaction is compliant with Council's Investment Policy and the rate of investment is within 0.05 percentage points when compared against other investments available to Council at the time.

As at 31 December 2017, 63% of all invested funds were placed with fossil fuel free financial institutions and ADIs (30 June 2017: 64%).

Previous Council Resolution

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

Council Plan Goal/Endorsed Strategy

Goal 6 – a leading, modern and open Council

Summary

A comprehensive review of Council's investment portfolio has been undertaken for the six months ended 31 December 2017. The Council's investment portfolio has earned \$0.80 million in interest on investments with term deposits and cash investments earning an annualised rate of 2.24% (June 2017: 2.44%). As at 31 December 2017, the Council's investment portfolio was valued at \$83.11 million (June 2017: \$74.15 million).

Committee Decision

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

That the Audit Committee receive the contents of this report.

CARRIED

7.3 BORROWING POLICY**Author:** Acting Director Corporate Services**Reviewed By:** Acting Director Corporate Services

Summary

The Audit Committee Work Plan July 2017 – June 2018 details that the Borrowing Policy is discussed at the Audit Committee meeting.

The Borrowing Policy for the City of Darebin is incorporated into its Strategic Resource Plan for the four years 2017-2021 (pg 10-14). The Strategic Resource Plan for the four years 2017-2021 shows that at the time of preparation that no there were no borrowings and no anticipated new borrowings for the financial years 2017/18, 2018/19, 2019/20 and 2020/21.

This borrowing position has not changed and will be reviewed during the preparation of the Budget 2018/19 and the Strategic Resource Plan for the four years 2018-2022.

Consultation

- Nil

Committee Decision

MOVED: Mr T Richards**SECONDED:** Dr M Bini

That the Audit Committee notes this report.

CARRIED

8. RISK MANAGEMENT

8.1 CORPORATE RISK MANAGEMENT AND BUSINESS CONTINUITY PLANNING

Author: Manager Corporate Risk and Audit

Reviewed By: Acting Director Corporate Services

Summary

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: Dr M Bini

That the Audit Committee notes this report.

CARRIED

9. INTERNAL AUDIT

9.1 INTERNAL AUDIT PROGRESS REPORT AND RECENT REPORTS AND PUBLICATIONS

Author: PA to Director Corporate Services

Reviewed By: Acting Director Corporate Services

Summary

The internal auditors, Crowe Horwath, have provided a report as at 13 February 2018 regarding Council's internal audit activity since December 2017.

Consultation

- Executive Management Team
- Senior Management

Committee Decision

MOVED: Mr T Richards

SECONDED: Ms L Tripodi

That the Audit Committee note the attached report, Internal Audit Progress Report as at 13 February 2018 and Recent Reports and Publications (Oct–Dec 2017) prepared by Crowe Horwath.

CARRIED

9.2 MEMORANDUMS OF AUDIT PLANNING**Author:** PA to Director Corporate Services**Reviewed By:** Acting Director Corporate Services

Summary

As part of the implementation of Council's audit program for 2018, Crowe Horwath has prepared a Memorandum of Audit Planning (MAP) for the following upcoming audit:

- Management of the Security over Attractive and Valuable Minor Assets Review

This MAP was sent to Audit Committee members and the 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. S Rennie

That the Audit Committee notes the MAP prepared by the internal auditor Crowe Horwath for Management of the Security over Attractive and Valuable Minor Assets Review.

CARRIED

9.3 HUMAN RESOURCE PAYROLL REVIEW AUDIT**Author:** Manager People and Development**Reviewed By:** Acting Director Corporate Services

Summary

The Human Resource / Payroll Review Audit as attached was undertaken to assess the adequacy of centralised processes with respect to the following:

- (1) Award interpretations, including initial establishment and setup in payroll system; allowances; review and oversight by People and Development
- (2) Profile management, including personnel records management and privacy; access rights to HR IT system; update and management of employee details
- (3) Use of contract staff, including 'conditions of employment'; background, qualification and working with children requirements; consideration of contractor versus employee status
- (4) Management of variations, including higher duties; overtime; and time off in lieu
- (5) A review of data analytics to interrogate data within the relevant systems.

The audit found that some of the current controls in place over HR and Payroll maintained by Council need strengthening, and identified controls that should be implemented and improved in order to reduce the identified weaknesses and exposures.

Council has Human Resources and Payroll functions in place, supported by experienced Officers and adequate operational frameworks.

Whilst the report from Council's internal auditors did not note any high risk issues, two moderate issues and one low risk issue were identified as follows:

1. Management of pay variations (Moderate)

Management Response: Concurrence with the audit finding committing to the following process improvement undertakings:

- Council's Leave Policy will be updated to include guidelines specific to Time in Lieu and Roster Days Off.
- A Higher Duties Policy will be developed reflective of current industrial obligations, assignment and authorisation processes.
- Time in Lieu, Roster Day Off and Higher Duties reports will be prepared and made available to management and ELT on a quarterly basis.
- A process relating to the allocation and approval of time in lieu and overtime relating to the Team Leader Traffic will be developed and implemented.

2. Use of contract staff (Moderate)

Management Response: Concurrence with the audit finding committing to the following process improvement undertakings:

- Council's Agency Management Form will be updated to include the Manager People and Development and Coordinator Procurement as additional authorisers. The new process will be communicated across Council.
 - People and Development and Procurement will collaborate to identify relevant information required from third party Agencies.
 - Council will liaise with third party Agencies to develop a detailed job costing report and discuss timing of reports.
-

- Agency management reports will be presented to ELT on a quarterly basis. Agreed strategies will be developed in consultation with ELT and implemented accordingly.

3. IT access levels to staff information (Low)

Management Response: Concurrence with the audit finding committing to the following process improvement undertakings:

- A policy will be developed in consideration of Privacy Legislation and confirm who can access to personnel files.
- Quarterly reviews will be undertaken to determine incongruence with Policy and with access removed if required.
- Quarterly reports will be presented to the General Manager Governance and Engagement.

4. Data analytics observations and recommendations

Management Response: Concurrence with the audit findings committing to the following process improvement undertakings:

- Processes will be developed and implemented to support Council to identify anomalies and put in place controls that mitigate or where possible eliminate risks
- Quarterly reports will be presented to ELT.

Consultation

- Katina Angelofsky – Manager People and Development
- Roberta Vassallo – Workforce Planning Consultant
- Joseph David – Payroll Coordinator
- Diana Chung – HR Systems Officer
- Helen Barbutt – Learning and Development Consultant
- Nicole De Lacy – HR Business Partner
- Angelo Luczek – Coordinator Corporate Information
- Michael O’Riordan – Financial Accountant
- Angelo Russo – Team Leader Traffic Enforcement
- Harry Singh – Senior Business Systems Analyst/Project Manager
- Daniel Tarquinio – Senior Business Systems Analyst
- Andrew McLeod – Director Corporate Services

Committee Decision

MOVED: Mr T Richards
SECONDED: Dr M Bini

That the Audit Committee receive and note the attached report; Human Resource/Payroll Review prepared by the Internal Auditors, Crowe Horwath.

CARRIED

[Ms Angelofsky entered the meeting prior to discussion of this item at 2.58pm and left the meeting at conclusion of discussion at 3.06pm]

9.4 VAGO EXTERNAL AUDIT STRATEGY 2017-2018**Author:** Acting Director Corporate Services**Reviewed By:** Acting Director Corporate Services

Summary

The Audit Strategy Memorandum 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:** Dr M Bini

That the Audit Committee note the attached Audit Strategy Memorandum – Darebin City Council for the financial year ending 30 June 2018 prepared by the Victorian Auditor-General's Office.

CARRIED

9.5 ASSET PROTECTION UPDATE**Author:** Manager Planning and Building**Reviewed By:** Acting Director Corporate Services

Summary

This matter was discussed at the Audit Committee meeting 4 December 2017 where the report was described as 'a work in progress' with the auditor and Council officers to work further on the issues where Council management are not in agreement.

Whilst there has been progress on the recommendations internally, with the Christmas/New Year break there has not been the opportunity for the auditor and Council management to meet and reconcile the issues where there is disagreement.

It is recommended that the internal process review that has been commenced continues and that a revised report be provided to the June Audit Committee meeting.

The Committee will recall that 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 was reviewed to ascertain whether the service can be made more efficient and effective and whether actions can be taken to mitigate any risks identified. There is general consensus that the service would benefit from both system and process improvement.

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 an 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
- Chief Financial Officer
- Coordinator Civic Compliance
- Building Site Compliance Officer
- Manager Health and Compliance
- Financial Accountant

Committee Decision

MOVED: Mr T Richards

SECONDED: Ms L Tripodi

That the Audit Committee consider a revised audit report for *Asset Protection* from Crowe Horwath at its June 2018 meeting, noting its previous instruction that the auditors and Council management meet further to ensure the revised report achieves more consensus on the recommendations.

CARRIED

[Mr Rudd entered the meeting prior to discussion of this item at 3.13pm and left the meeting at conclusion of discussion at 3.17pm]

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

Summary

This report provides an update on progress towards addressing outstanding recommendations, as at 31 January 2018, since the last ordinary Audit Committee meeting held, Monday, 4 December 2017.

A commitment by the Executive Management Team was agreed to address the outstanding recommendations through the development of an action plan. Of the 43 recommendations that remained outstanding from the previous action plan report, 14 have been addressed and completed.

There are currently 33 reports in the Audit Manager system including a new report which was finalised and presented at the last Audit Committee meeting; the Road Management Plan. As part of this Internal Audit, a total of 12 recommendations were identified.

Within the 33 reports, a total of 60 recommendations have been identified with 46 that remain outstanding. The attached action plan report identifies the 14 recommendations now complete, the remaining progress comments received as at 31 January, their risk rating, the initial date of completion, and the agreed revised date.

Additional findings are summarised below:

- 12% of recommendations have not met target completion dates of December 2017.
- 10% of recommendations have a High Risk Rating. Two of the six recommendations are still within the revised completion date and follow up remains for the other four recommendations.
- 8% of recommendations did not have a progress update for January 2018.

Consultation

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

Recommendation

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

Committee Decision

MOVED: Mr T Richards
SECONDED: Dr M Bini

That the Audit Committee:

- 1) receives and notes this report on Outstanding Internal Audit Actions.
- 2) notes the substantial reduction in the list of items from previous reports.

CARRIED

9.7 INFRINGEMENTS AND PERMITS MANAGEMENT (LOCAL LAWS)**Author:** Acting Coordinator Civic Compliance**Reviewed By:** Director Civic Governance and Compliance

Summary

The Infringements and Permits Management (Local Laws) Audit Report, as attached, was undertaken to assess:

1. Adequacy of internal controls around regarding infringements and permits for local laws;
2. Use and control of the main IT system used for supporting Local Law Enforcement;
3. Receipt, assessment, charging for and issuing of permits;
4. Customer complaint/request management processes; and
5. Process for the issuance of infringements and undertaking of prosecutions, including:
 - The effectiveness of controls surrounding the withdrawal/voiding of infringement notices once issued that may have circumvented the official Internal Review process; and
 - Whether staff responsible for issuing and withdrawing infringements have an approved delegation.

Overall it was found that the current controls in place over Local Law enforcement maintained by Council were satisfactory. The audit identified a range of controls that should be strengthened and improved in order to reduce the identified weaknesses and exposures.

Council has an active local law enforcement function in place that is supported by experienced officers and an adequate operational framework.

The report from Council's internal auditors noted no high risk issues. All audit findings were supported by management and appropriate respondent controls are underway, or planned, to address medium and low risk process deficiency.

Consultation

- Paul Edwards – Coordinator Civic Compliance
- Ellie Mandritis - Manager Health and Compliance
- Michael Groenwaldt – Senior Local Laws Investigations Officer Enforcement
- Jacinta Stevens – Director Civic Governance and Compliance

Committee Decision

MOVED: Mr T Richards

SECONDED: Cr. S Rennie

That the Audit Committee receives and notes the attached report; Infringements and Permits Management (Local Laws) prepared by the Internal Auditors, Crowe Horwath.

CARRIED

10. PROCUREMENT

Nil

11. GOVERNANCE

11.1 ASSET MANAGEMENT PLANS REVIEW

Author: Coordinator Asset Systems

Reviewed By: Director Operations and Environment

Report Background

This report is provided as an annual update on the progress on development of asset management plans for Council's infrastructure assets. A report on asset management plans was previously provided to the Audit Committee Meeting held of 27 February 2017; however this report was withdrawn as the asset management plans were yet to be approved by Council.

One year on, one asset management plan is current (Roads), five draft asset management plans (Stormwater, Buildings, Open Space, Cultural Collections, Information Services) await Council approval and one (Fleet) is still under development.

The approval of the draft plans has been delayed by difficulties in matching the financials of the draft plans with those contained in the Long Term Financial Plan. These difficulties resulted from differing assumptions about what was and was not included in the forecasts and have been resolved. The delay in approval of the draft plans has not prevented the asset managers from progressing with tasks identified in the improvement plans or from performing the levels of service identified in the draft plans.

Previous Council Resolution

This matter has not previously been the subject of a resolution

Previous Briefing(s)

This matter has not previously been to a Councillor briefing.

Council Plan Goal/Endorsed Strategy

Goal 3 - A liveable city

Strategy 3.3 We will manage local roads, buildings and public places to make our city safer, cleaner and more attractive

Summary

The production of asset management plans is a central element of Council's Asset Management Strategy. Asset management plans identify the processes and practices involved in managing Council's infrastructure assets, identify gaps and improvement actions and to provide long-term financial forecasts for the maintenance and provision of infrastructure to meet community needs and level of service expectations.

The current status of Council's Asset Management Plans is as follows:

- Road Asset Management Plan (2016) – Third iteration of this asset management plan was approved by Council on 23 May 2016. This asset management plan covers road and transport related infrastructure including roads, footpaths, traffic management devices, bicycle paths and bridges.
- Draft Stormwater Asset Management Plan (2018) – This draft updates the 2007 Drainage Asset Management Plans which covers the physical infrastructure of overland and piped stormwater drainage systems that are owned and managed by Council including pits, pipes, gross pollutant traps, raingardens and wetlands.
- Draft Buildings Asset Management Plan (2018) – This draft provides for an update of 2010 version which generally covers structures with a roof used by Council to deliver service to the community and includes buildings and shade structures.
- Draft Open Space Asset Management Plan (2018) – This draft updates the 2010 version which covers infrastructure within Council’s parks and reserves (but does not currently cover ‘living assets’ such as trees or sports fields).
- Draft Cultural Collections Asset Management Plan (2018) – This draft is a new asset management plan covering indoor and outdoor public art collections.
- Draft Information Services Asset Management Plan (2018) – This draft is a new asset management plan covering information technology network infrastructure, desktop equipment, office equipment and mobile computing equipment.
- Draft Fleet Asset Management Plan (2018) – This draft is a new asset management plan covering vehicles (both light and heavy) owned and managed by Council.

During the past year, Council began preparation of a new ten-year development contribution plan (DCP). The DCP requires production of a long-term works program with individually detailed renewal, upgrade and expansion works to address both current asset condition and future population growth. As the financials are a substantial element within the asset management plans, it is proposed to link the financials in the draft asset management plans with the outputs from the DCP process. The DCP is planned to be approved by Council by the end of the 2017/18 financial year.

The draft asset management plans are currently being finalised with linkages to the new Council plan (2017-2021) in consultation with the service and asset managers. The updated draft asset management plans (including DCP financials) are planned to be presented to the Council in the second half of 2018.

Committee Decision

MOVED: Mr T Richards

SECONDED: Ms L Tripodi

That the Audit Committee note this report.

CARRIED

Mr Nagpal entered the meeting prior to discussion of this at 3.37pm and left the meeting at conclusion of discussion at 3.55pm]

11.2 ELECTION OF AUDIT COMMITTEE CHAIRPERSON AND DEPUTY CHAIRPERSON**Author:** Manager Corporate Risk and Audit**Reviewed By:** Acting Director Corporate Services

Summary

The Audit Committee is an Advisory Committee appointed pursuant to section 139 of the *Local Government Act 1989* to assist Council in fulfilling its responsibilities relating to internal control mechanisms and external reporting requirements.

In accordance with the Audit Committee Charter, a Chairperson and Deputy Chairperson is elected for a twelve month term. Mr Terry Richards was elected Chairperson and Ms Lisa Tripodi was elected Deputy Chairperson on 2 October 2017.

Audit Committee Charter

The Audit Committee Charter states that:

- (1) The audit committee will appoint a Chair and Deputy Chair for a twelve month term each Council year.
- (2) The chair and deputy chair will be external members.
- (3) The election of the Chair shall take place in accordance with the process for the election of the Mayor under the Darebin City Council Governance Local Law.
- (4) The election of the Deputy Chair shall follow the election of the Chair and shall take place in accordance with the process for the election of the Deputy Chair.
- (5) The Chair, and in their absence, the Deputy Chair, will preside over meetings of the audit committee.

The Audit Committee Charter was adopted at the Special Meeting of Council on Monday, 14 November 2016.

Process

The requirement to appoint a new Chairperson and Deputy Chairperson was following the conclusion of Mr Mike Said's association with the Darebin City Council Audit Committee.

On 2 October 2017 at the Audit Committee meeting, the Director Corporate Services initiated the requirement to invite nominations for election to the position of chairperson of the Audit Committee. Mr Terry Richards, as acting Chairperson called for nominations for election of Chairperson and Deputy Chairperson to the Audit Committee for the next twelve months.

The Audit Committee members by election appointed Mr Terry Richards as the Chairperson and Ms Lisa Tripodi as Deputy Chairperson for the next twelve months.

Consultation

Nil

Committee Decision

MOVED: Mr T Richards

SECONDED: Cr. S Rennie

That the Audit Committee receives and notes this report on the Election of the Audit Committee Chairperson and Deputy Chairperson.

CARRIED

[Ms Wilkinson left the meeting at conclusion of discussion of this item at 3.56pm and did not return.]

12. CONFIDENTIAL

Nil

13. OTHER BUSINESS

13.1 RECYCLING

Dr Bini enquired if Council had been affected by China's new restrictions to the import of recycled materials.

In response, Mr Albicini advised that the Council had been affected by China's new restrictions on recycling. China was now accepting recyclables at much lower contamination rates than Australian recycling processors could provide and this meant that Australian-based exporters would have to change processes, standards and potentially their plant and equipment.

There are three recycling processors in Victoria and Council has a contract with SKM.

Council's lawyers have advised that Council's contract with SKM is sound.

SKM has requested Council to pay for the collection and cost of sorting the material. They are seeking to change the terms of the contract and the variation could cost Council up to \$60 tonne. Currently Council receives a rebate of \$55.64 per tonne on an average of 14,500 tonnes per annum.

Negotiations with the contractors are continuing and the aim is to develop a model that is suitable for both parties. An update will be provided to Council at its next meeting.

Council Officers have applied for State Government temporary relief funding to 30 June 2018 and have made provision in the 2018/19 budget for potential recycling costs.

The MAV are also establishing a working group to review the industry as a whole and will look at pricing, market and alternative technology. Council has been invited to be part of the group.

Council has applied for an exemption to vary the recycling processing contract through Local Government Victoria.

Currently Council does not apply waste charges, but this could be an option for the future.

14. NEXT MEETING

The next meeting of the Audit Committee will be held at 2.30pm on Monday 4 June 2018 in the Darebin Civic Centre, 350 High Street Preston.

15. COMMITTEE MEMBERS CONFERENCE

Nil

16. CLOSE OF MEETING

The meeting closed at 4.00pm



the place
to live

SUMMARY MINUTES OF THE AUDIT COMMITTEE MEETING

Held on Monday 4 June 2018

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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 JUNE 2018**

THE MEETING OPENED AT 2.36PM

1. PRESENT

Members

Mr Terry Richards (Chairperson)
Ms Lisa Tripodi (Independent External Member)
Cr. Kim Le Cerf (Mayor) (Committee Member)
Cr. Susan Rennie (Committee Member)
Dr Marco Bini (Independent External Member)

Internal Auditor

Mr Martin Thompson – Senior Partner, Audit & Assurance – Crowe Horwath

External Auditor

Mr Tim Loughnan - (Sector Director – Local Government, Financial Audit – VAGO)

Officers

Ms Sue Wilkinson - Chief Executive Officer
Ms Ingrid Bishop – General Manager Governance & Engagement
Mr Allan Cochrane – Manager Finance
Mr Michael O’Riordan – Financial Accountant
Ms Melinda Viksne – Manager Governance & Performance

Minutes

Ms Mira Josevska – Risk & Insurance Advisor

2. APOLOGIES

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

Dr Marco Bini

- Department of Economic Development, Jobs, Transport & Resources

Dr Bini subsequently noted that this not a conflict as the Department of Economic Development, Jobs, Transport & Resources is not the department that oversees the Local Government portfolio.

5. CONFIRMATION OF THE PREVIOUS AUDIT COMMITTEE MEETING

Recommendation

MOVED: Mr T Richards
SECONDED: Cr K Le Cerf

That the Minutes of the Audit Committee Meeting held on 22 March 2018 be confirmed as a correct record of business transacted.

CARRIED

6. STANDING REPORTS

Nil

7. FINANCIAL REPORTS

7.1 ANNUAL FINANCIAL REPORT

Author: Financial Accountant

Reviewed By: General Manager Governance and Engagement

Summary

This report provides the draft shell Annual Financial Report for the year ended 30 June 2018 to be presented to Council and the Audit Committee at year-end.

Statutory Requirements

The *Local Government Local Government Act 1989* (the Act) and the *Local Government (Planning and Reporting) Regulations 2014* (the regulations), require Council to prepare an annual report in respect of each financial year. The annual report is to contain audited financial statements.

The regulations require that Council's audited financial statements are prepared in accordance with the Local Government Model Financial Report.

Regulations 19 and 20 in part four of the regulations state that:

- The financial statements must be prepared in accordance with the Local Government Model Financial Report
- The financial statements must contain a statement of capital works
- The financial statements must include specified other information as notes.

The review of the Local Government Model Financial Report Manual 2018 has identified other reporting / disclosure changes from the previous year. There have been some further changes incorporated to the format since the 2016/17 Annual Financial Report. These changes include:

- The model financial report has been significantly revised to streamline and simplify disclosures.
- Note 1 has been largely reallocated to other areas within the financial report, aligning with the relevant financial disclosures.
- The certification of the financial statements and audit report have been moved to the front of the financial statements, reflecting the importance of these documents.

Consultation

- Manager Finance
- Victorian Auditor-General's Office

Committee Decision

MOVED: Mr T Richards
SECONDED: Ms L Tripodi

That the Audit Committee notes and receives this report on the draft shell Annual Financial Report for the year ended 30 June 2018.

7.2 FINANCIAL REPORT - 9 MONTHS ENDED 31 MARCH 2018**Author:** Financial Accountant**Reviewed By:** General Manager Governance and Engagement

Purpose

To comply with the *Local Government Act 1989*, the attached report (**Appendix A**) compares for the nine months ended 31 March 2018:

- Actual and budgeted operating revenues and expenses
- Actual and budgeted capital revenues and expenses
- Actual and budgeted movements in the Balance Sheet
- Actual and budgeted movements in the Cash Flow Statement

Summary

A comprehensive financial review has been undertaken for the nine months ended 31 March 2018 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 \$45.18 million, which is \$6.28 million ahead of operating budget and capital works expenditure of \$17.93 million, which is \$15.82 million behind the capital expenditure budget.

All material variations have been explained in the report.

Committee Decision

MOVED: Mr T Richards
SECONDED: Cr. S Rennie

That the Audit Committee receives the financial report nine months ended 31 March 2018, included as Appendix A to this report and notes the year to date financial results against budget.

7.3 FINANCIAL REPORTING DEVELOPMENTS - 2018**Author:** Financial Accountant**Reviewed By:** General Manager Governance and Engagement

Purpose

This report provides a brief overview of key financial reporting developments which Council will need to consider for its financial reporting for the year ending 30 June 2018.

Summary

The Audit Committee requested an issues paper covering contemporary financial reporting developments be presented to the Committee each year in the lead up to the financial year-end. This report covers key financial reporting developments that are expected to impact on Council for the year ending 30 June 2018 and into the future.

Committee Decision

MOVED: Mr T Richards**SECONDED: Dr M Bini**

That the Audit Committee receives and notes this report on financial reporting developments.

7.4 VAGO EXTERNAL AUDIT - INTERIM MANAGEMENT LETTER FOR THE YEAR ENDED 30 JUNE 2018**Author:** Corporate Risk Strategic Advisor**Reviewed By:** General Manager Governance and Engagement

Summary

The Auditor-General has undertaken the interim financial report audit of Darebin City Council for the year ending 30 June 2018.

The interim management letter outlines deficiencies in the design and implementation of controls or other significant matters relevant to the financial reporting process during the interim phase of the audit.

Of the nine items raised, three have been resolved, with all six remaining issues embedded in business unit work plans for completion.

Committee Decision

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

That the Audit Committee notes the attached report titled *Darebin City Council – Interim Management Letter for the year ended 30 June 2018*.

8. RISK MANAGEMENT

8.1 ENTERPRISE RISK MANAGEMENT REVIEW

Author: Corporate Risk Strategic Advisor

Reviewed By: General Manager Governance and Engagement

Summary

As a requirement of the Audit Committee, Council officers are required to provide progress reports on the ongoing implementation and performance of Council's risk management plans.

On 22 March 2018, the Audit Committee requested an update on the development of Council's Enterprise Risk Management Strategy and Strategic Risk Review. This report provides an update on these two items.

1. Enterprise Risk Management Strategy

During the second quarter of 2017–18, Council commenced working on a draft Enterprise Risk Management (ERM) Strategy. The development of an ERM strategy aims to ensure a holistic approach to management of risk; to commit the organisation to ensuring risk management is a fundamental element and integral part of the wide range of activities undertaken by Council; to improve and enhance existing risk management practices; and to improve the effectiveness of ERM reporting.

With the majority of middle management changes now in place as a result of the organisational restructure which commenced late 2017, it is essential that the new senior and middle management team is engaged in the development of the new ERM Strategy and the creation of new processes and reporting requirements. With the establishment of the new senior leadership team at the end of March 2018, work has now commenced on the finalisation of the ERM Strategy. It is anticipated that the draft Strategy will be completed by September 2018.

2. Strategic Risk Review (CAMMSRisk)

Scoping of the current CAMMSRisk system was completed in October 2017. This provided the opportunity to review Council's existing Risk Framework. Senior officers across Council were involved in drafting a consequence risk matrix to support the identification of Council's critical success factors and potential levels of risk. Configuration of Council's Risk Framework, Strategy, systems and processes will be finalised as a complete bundle during Quarter One of 2018–19 and will then inform Council's new Strategic Risk Review.

Upon completion, the Risk Framework will be uploaded into CAMMSRisk. The review of strategic risks across the organisation will then commence.

The review of Council's strategic and operational risks will be aligned with Council's business planning, budgeting cycles, major projects, communications and audit processes.

Committee Decision

MOVED: Mr T Richards
SECONDED: Cr. S Rennie

That the Audit Committee receives and notes this report.

9. INTERNAL AUDIT

9.1 INTERNAL AUDIT PROGRESS REPORT AND RECENT REPORTS AND PUBLICATIONS

Author: Corporate Risk Strategic Advisor

Reviewed By: General Manager Governance and Engagement

Summary

The internal auditors, Crowe Horwath, have provided a report as at 26 May 2018 regarding Council's internal audit activity since March 2018.

All items outstanding have been addressed by the new Senior Management Team and incorporated into relevant business unit work plans.

Consultation

- Executive Management Team
- Senior Management

Committee Decision

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

That the Audit Committee note the attached report, Internal Audit Progress Report as at 26 May 2018 and Recent Reports and Publications (January–March 2018) prepared by Crowe Horwath.

9.2 FINANCIAL/GOVERNANCE CONTROLS**Author:** Finance Manager**Reviewed By:** General Manager Governance and Engagement

Summary

The Financial/Governance Controls Audit (sundry debtors, purchasing cards, rates debtors) was undertaken to assess:

1. The adequacy of the centralised processes around purchase cards
2. The adequacy of the controls and processes around rates debtor management
3. The adequacy of the controls and processes around sundry debtor management.

The audit found that some of the current controls in place over the financial/governance controls maintained by Council need strengthening. The audit identified a range of controls that should be implemented and/or improved in order to reduce the identified weaknesses and exposures.

Council has continued to build on past audits and experience to further strengthen the management and control of its key financial management systems. Finance has a team of experienced and dedicated staff that are central to the reliability of the data and operation of the areas addressed as part of the review.

The report notes one high risk issue, two moderate risk issues and one low risk issue, as follows.

1. Purchase card transactions (High)

Management Response:

Process improvement undertakings:

- All purchases undertaken on behalf of staff are to be authorised in accordance with current delegations.
 - Monthly statements are to be reviewed by the relevant manager.
 - Gift card purchases to be made in accordance with Expenditure Policy.
 - A copy of the signed Professional Development form to be attached to the purchase card requisition prior to processing payment. Leave Policy will be updated to include guidelines specific to Time in Lieu and Roster Days Off.
 - Policy is clear in the event of a missing tax invoice/receipt. Card holders to be made aware of their responsibility when using the purchase card.
 - Every expenditure line item is reviewed by Finance irrespective of purchasing mechanism. While current policy is in place, Finance will commence regular audits of other purchase cardholders.
2. Follow up of overdue sundry debtor accounts (Moderate)

Management Response:

Process improvement undertakings:

- A revised Revenue & Debt Collection Policy is currently being drafted with a focus on the process for collection and escalation of action on unpaid debts.

3. Data Analysis (Moderate)

Management Response:

Officers have also responded to Section 4 of the attached report Data Analysis Observations and Recommendations and have commenced review of the Purchasing Card data and Transactional data.

4. Manual adjustments to rates transactions (Moderate)

Management Response:

Process improvement undertakings:

- Dual approval not available in Rating System; however, the Audit Report is reviewed daily by Senior Revenue Officer. In addition, a periodic review by non-revenue finance staff is to be implemented.
5. Rates debtor collection procedure currently being developed and Financial Hardship Policy developed and adopted in February 2018.

Management Response:

Process improvement undertakings:

- Rates Financial Hardship Policy reviewed and adopted by Council 26 February 2018 and was made more accessible within the limitations of Council's current website on 27 February 2018.
- Rates notice being updated to provide further clarity regarding the Rates Financial Hardship Policy.
- Procedure for rates debtor management and collection currently being written and will be entered into ProMapp.

Consultation

Michael O'Riordan, Financial Accountant

Janis Liew, Accounts Receivable Officer

Russell Lynch, Procurement Coordinator

Kerrie Wellington, Revenue Services Coordinator

Daniel Tarquinio, Senior Business Systems Analyst

Committee Decision

MOVED: Mr T Richards

SECONDED: Cr. K Le Cerf

That the Audit Committee receive and note the attached report: Financial/Governance Controls (sundry debtors, purchasing cards, rates debtors) prepared by the Internal Auditors, Crowe Horwath.

9.3 MANAGEMENT OF THE SECURITY OVER VALUABLE MINOR ASSETS REVIEW**Author:** Corporate Risk Strategic Advisor**Reviewed By:** General Manager Governance and Engagement

Summary

Internal auditors, Crowe Horwath, have recently finalised the Management of the Security over Attractive and Valuable Minor Assets Review. The objectives of the review were as follows:

1. To identify which business units are provided with attractive and valuable minor plant and equipment
2. Determine the adequacy of policies and procedures for ensuring the security of minor assets
3. Consider the use and effectiveness of accounting and financial control methods
4. Review management reporting around stock takes, theft and losses, sales to staff.

As part of the audit, the following business units were reviewed:

- City Works – Infrastructure Maintenance
- Parks & Open Spaces
- Information Services.

Of the six findings in the report, four have a risk rating of moderate and two have a risk rating of low. The report does not note any high risk issues.

Management has agreed to the report recommendations, which will strengthen the current controls in place. These include:

- development of policies and procedures for the management of portable and valuable minor assets
- review and further development of current accounting and financial controls
- review and further development of controls relating to management reporting of stock takes, theft and losses and sales to staff.

All agreed actions will be included in business unit work plans, to ensure completion in a timely manner.

Committee Decision

MOVED: Mr T Richards
SECONDED: Ms L Tripodi

That the Audit Committee receive and note the attached report: Management of the Security over Valuable Minor Assets Review prepared by the internal auditors, Crowe Horwath.

9.4 OUTSTANDING AUDIT ACTION PLAN**Author:** Corporate Risk Strategic Advisor**Reviewed By:** General Manager Governance and Engagement

Summary

This report provides an update on progress made towards addressing outstanding Internal Audit recommendations and general Audit Committee actions.

To streamline the reporting process and to ensure that all audit actions are captured and documented, all recommendations, report actions and audit committee actions are now consolidated into the Outstanding Audit Action Plan – previously referred to as the Action Plan for Outstanding Recommendations. The Outstanding Audit Items Action Plan will include Internal Audit Recommendations, VAGO Audit actions, Audit Committee actions and other external and internal report outcomes as applicable under separate headings.

In consultation with the Executive Management Team (EMT), officers will embed all outstanding items into relevant business unit work plans to accelerate resolution of these items. This has been identified as a high priority from the EMT.

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 and the Outstanding Audit Action Plan as at 14 May 2018.

10. PROCUREMENT

10.1 PROVISION OF INTERNAL AUDIT SERVICES

Author: Finance Manager

Reviewed By: General Manager Governance and Engagement

Summary

Council's contract for the provision of internal audit service commenced 1 May 2015 and finished 30 April 2018. A decision has been made not to exercise the available option to extend the contract and to go to tender for an internal audit service provider.

During the tender process, Council will continue to address outstanding audit actions and finalise current Memorandum of Audit Planning (MAP) actions. The procurement process is ready to be activated.

Council will also prepare a proposed 2018–19 and 2019–20 audit program for consideration by the Audit Committee and internal auditor at the next Audit Committee meeting on 27 August 2018.

Consultation

General Manager Governance and Engagement

Committee Decision

MOVED: Mr T Richards

SECONDED: Cr. S Rennie

That the Audit Committee notes that Council will release a request for tender for the provision of internal audit services.

(Mr Thompson left the meeting prior to discussion of this item at 3.43pm and entered the meeting at conclusion of the discussion at 3.49pm)

11. GOVERNANCE

11.1 ASSET MANAGEMENT - BUILDING ASSET MANAGEMENT PLAN REVIEW

Author: General Manager Governance and Engagement

Reviewed By: General Manager Governance and Engagement

Purpose

This report is in response to the Audit Committee request from its March 2018 meeting, whereby due to the quality and inconclusiveness of the Asset Management Plans Review outcome, the General Manager Governance and Engagement (GM G&E) is to review one (1) AM Plan and present the findings to the next Audit Committee.

Summary

At the March 2018 Audit Committee, committee members challenged the effectiveness of asset management planning process and that no decision could be made on how to progress with the draft AM plans due to be presented to Council, as a result of the lack of clarity regarding the quality of the plans.

The GM G&E conducted a review of the Building Asset Management Plan and Council's approach to planning and processes. As a result of the review, significant deficiencies have been identified which can and will, have a detrimental impact on Councils short and long term financial planning and modelling; capital investment and community benefit; resource allocation; effectiveness of asset management systems and processes; and overall accountability.

Due to the issues highlighted, the following actions are recommended:

- Develop an AM Strategy and prepare a draft AM Policy
- Undertake an AM Improvement Plan (AMIP) with all key internal stakeholders and prepare a State of the Assets Report
- Prioritise the order of development for all AM Plans required by Council
- Undertake a full audit of the current IT systems associated with AM
- Develop and implement a stakeholder communications plan
- Prepare a resourcing plan to address the timely and effective development and implementation of the AM Strategy and AMIP
- Develop a comprehensive reporting framework to ensure all stakeholders including the Audit Committee are updated regularly in line with agreed timeframes.

Committee Decision

MOVED: Mr T Richards
SECONDED: Dr M Bini

That the Audit Committee

1. Receives and notes the report; and
2. Notes the recommended action plan to develop the following:
 - State of Assets Report
 - Asset Management Strategy
 - Asset Management Improvement Plan
 - Proposed prioritised schedule for completion of Asset Management Plans (by class) and other key asset management related plans and informing documents.

12. CONFIDENTIAL

See confidential attachment

13. OTHER BUSINESS

13.1 ASSET PROTECT AUDIT UPDATE

Mr Richards noted that this audit had been ongoing for some time and was expecting a conclusion as to why the audit had not been completed within the 12-month period.

Mr Thompson informed the committee that Crowe Horwath raised key issues with outstanding bonds and that management had undertaken significant work had commenced on the reduction of bonds.

Mr Thompson noted that the best approach would be to re-audit and review the original recommendations to provide the committee assurance that the matters had been addressed accordingly.

In response, Mr Richards informed the Committee that he would like earlier assurance and would write to the Auditor-General on behalf of the Committee requesting him to site the balance to ensure it is supported by a valid register prior to signoff.

Committee Decision

MOVED: Mr T Richards
SECONDED: M L Tripodi

That the Audit Committee receives and notes the report.

14. NEXT MEETING

The next meeting of the Audit Committee will be held at 2.30pm on Monday 27 August 2018 in the Darebin Civic Centre, 350 High Street Preston.

15. COMMITTEE MEMBERS CONFERENCE

Nil

16. CLOSE OF MEETING

The meeting closed at 4.04pm