

MITCHELL SHIRE COUNCIL



Mitchell Shire Council

Audit Committee

2019 Annual Report to Council

1. INTRODUCTION

The *Local Government Act, 1989* requires that Council establishes an Audit Committee as an advisory committee to Council. The terms of reference of the Committee are outlined in the Mitchell Shire Council Audit Committee Charter, most recently approved by Council on 10 May 2018, and published on Council's website.

The Charter requires that the Chairperson of the Committee reports annually to Council on the following matters:

- Audit committee activities, issues, and related recommendations.
- Communication between the internal auditor, the external auditors, and the Council.
- The Audit Committee's composition, responsibilities and how they were discharged, and any other information required by regulation, including approval of non-audit services.
- The findings and recommendations of relevant Performance Audits undertaken by the Victorian Auditor-General and to ensure the Shire implements relevant recommendations.

This report satisfies that requirement by providing an outline of the Committee's activities and highlights across the 12-month period to end August 2019.

2. OBJECTIVE OF THE COMMITTEE

The objective of the Committee is to provide independent assurance and assistance to the Council (and management) on the Council's risk, control and compliance framework, and its external accountability responsibilities as defined in the *Local Government Act, 1989* and the various requirements of the Victorian State Auditor General's Department.

3. COMMITTEE MEMBERSHIP

The Charter requires that the Committee has a minimum of three independent members, one of whom will be appointed as the Chair, and two Councillors.

In line with this, membership of the Committee across the 12 months to end August 2019 has been as follows.

Chair and Independent Members

Mr. Michael Ulbrick	Member from 15 February 2011 Chair from 10 December 2012
Mr. Bruce Potgieter	Member from 15 November 2013
Ms. Theresa Glab	Member from 15 November 2013 Ceased February 2019
Mr. Rob Wernli	Member from May 2019

Councillor Members

Cr. David Atkinson	Member from 24 November 2016
Cr. David Lowe	Member from 24 November 2016

4. MEETING ATTENDANCE

The Committee has met four times in the 12-month period, with attendance as follows. A quorum was achieved for every meeting.

MEMBER	06/09/2018	8/11/2018	15/02/2019	9/05/2019
Mr. Michael Ulbrick	✓	✓	✓	✓
Mr. Bruce Potgieter	✓	✓	✓	X
Ms. Theresa Glab	✓	✓	✓	X
Mr Rob Wernli	n/a	n/a	n/a	✓
Cr. David Atkinson	✓	✓	✓	✓
Cr. David Lowe	✓	✓	✓	✓

5. ANNUAL HIGHLIGHTS

Key highlights for the Committee across the last 12 months have been:

- The endorsement of the Annual Financial Statements, accompanying notes and Performance Statements.
- The periodic review of the financial report.
- The review of the budget and long term financial plan strategic direction and assumptions.
- The review and assessment of the Audit Committee Charter.
- The conduct of four internal audits by Council's contract auditors, Pitcher Partners, in the following areas:
 - Safety Incident Management
 - Councillor and Senior Management Expense
 - Debtor and Hardship Management
 - Capital Works Planning Report
- The review of the 2018-2019 Strategic Internal Audit Plan.
- The further review of the Strategic Directions and Local Government Performance Reporting Framework reports.
- The review of the Risk Framework and Strategic Risks.
- The review of business continuity actions.
- The review of the updated Fraud and Corruption Policy and Procedure.
- The review of IBAC report: Ombudsman Victoria Investigation Report: Goulburn Murray Water – Mitchell Shire Council Response to Recommendations.
- The review of Local Government Inspectorate: Protecting Integrity: Leading the Way – Managing the employment Cycle of a Council CEO
- The review of External Audit Strategy & Interim Audit
- The review of Developer Contributions Resourcing.
- The regular review of Procurement and Compliance.
- The review and refresh of Council's Issues Monitor.
- The review and refresh of Council's Risk Management Register.
- The review of and refresh of the Committee's Self-Assessment.
- The review of the Committee's Annual Report to Council.
- The review of Council's Annual Report.

6. SUMMARY OF THE WORK OF THE COMMITTEE

The Committee meets on a quarterly basis to consider those matters within the scope of its terms of reference. The table below provides a schematic of the major items considered over the meetings across the year.

AGENDA ITEM	6/09/2018	8/11/2018	14/02/2019	9/05/2019
Finance Report	✓	✓	✓	✓
Financial Statement and Performance Statements	✓		✓	✓
2018/2019 Budget and SRP preparation			✓	
Issues Monitor	✓	✓	✓	✓
Risk Report and Management Register	✓	✓	✓	✓
Review of Procurement and Compliance	✓	✓	✓	✓
Review and assessment of the Audit Committee Charter & Secretariat Support				✓
Audit Committee Self-Assessment 2018			✓	
Audit Committee Meeting Dates for following year		✓		
Review of Annual Report – Authorisation of Performance Statement, Financial Report, and the Governance and Management Checklist	✓			
Review of Fraud and Corruption Policy and Procedure			✓	
Local Government Performance Reporting Framework				✓
Local Government Inspectorate: Protecting Integrity: Leading the Way – Managing the employment Cycle of a Council CEO				✓
Good Governance Framework and Checklist				✓
Developer Contributions Resourcing			✓	
Council's Annual Report 2017-2018	✓			
Internal Audit – Capital Works Planning Report	✓			
Internal Audit – Safety Incident Management		✓		

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Internal Audit – Councillor and Senior Management Expenses			✓	
Internal Audit – Debtor and Hardship Management				✓
Response to IBAC			✓	
Internal Audit Plan Status Update	✓	✓	✓	✓
Internal Audit:		✓		
External Audit Strategy			✓	
External Interim Audit				✓

7. PROGRESS MADE IN ADDRESSING ISSUES ARISING

Actions identified through the audit process are recorded, tracked and reported using Council's Issues Monitor with a summary of the issues included in a report to the Committee. All progress made on outstanding actions is recorded and reported to the next Audit Committee meeting.

As at the date of the last Audit Committee meeting in May 2019, 11 audit actions had been completed across the year. 21 were still outstanding, with 4 considered to be overdue. 12 (57%) of the outstanding items relate to audits conducted in the last twelve-month period, the 9 older outstanding items all relate to matters raised within internal audits and are being progressed to completion.

8. PROGRESS AGAINST KPIS

The Committee has 9 KPIS to guide its activity across the year. Progress against KPIS is monitored at each meeting of the Audit Committee. The status of delivery against each KPI is outlined below.

KPI	Statement	Comment
1.	Financial Reporting: <ul style="list-style-type: none"> • Review significant accounting and reporting issues • Review the annual financial report including Standard and Performance Statements • New review attestations required • Review the results of the audit • Review communication required under Australian Auditing Standards 	Delivered
2.	Internal Control: <ul style="list-style-type: none"> • Consider the effectiveness of the LGE's internal control system • Review the internal control over financial reporting 	Delivered
3.	Risk Management: <ul style="list-style-type: none"> • Monitor the systems and processes for risk management • Review the LGE's risk profile • Material business risks consider adequacy of mitigation actions • Monitor effectiveness of business continuity planning • Review any reports concerning evidence of material violation or breaches of fiduciary duty • Review any instance of fraud or possible illegal acts 	Delivered
4.	Internal Audit: <ul style="list-style-type: none"> • Review the internal audit function and KPIS • Review and recommend the annual audit plan • Review the internal audit plan and ensure it is linked to the LGE's risk profile • Review internal audit activity • Monitor processes and practices to ensure the independence of internal audit function • Provide an opportunity for the Audit Committee to meet with internal audit without management • Review outstanding audit actions 	Delivered
5.	External Audit: <ul style="list-style-type: none"> • Note the external auditors' proposed audit scope and approach • Consider external auditors' view on the control environment and management letters • Resolve any disagreement between management and the external auditors in financial reporting • Provide an opportunity for the Audit Committee to meet with external auditor without management • Consider VAGO's Performance Audits and management response 	Delivered

KPI	Statement	Comment
6.	<p>Compliance:</p> <ul style="list-style-type: none"> • Obtain regular updates on compliance matters • Review the systems and processes for monitoring compliance with legislation and regulations • Be informed on how management monitors the effectiveness of its compliance and ethics program • Keep informed of the findings of any examinations by regulatory agencies • Review whistle-blower arrangements and reports 	Delivered
7.	<p>Reporting Responsibilities:</p> <ul style="list-style-type: none"> • Report regularly to the Council • Monitor that open communication between the internal auditor, the external auditors, and the LGE occurs • Report annually to Council • Consider the findings and recommendations of relevant Performance Audits 	Delivered
8.	<p>Assessment of Financial Information</p> <ul style="list-style-type: none"> • Review the Long Term Financial Plan Assumptions and Strategy • Review significant accounting and reporting issues • Review the quarterly financial report • Periodically compare actual outcomes, achievement of milestones and other KPIs as compared with the Council Plan, Annual Report and Budget - strategic indicators for monitoring the achievement of the strategic objectives 	Delivered
9.	<p>General</p> <ul style="list-style-type: none"> • Establish timing of meetings for forthcoming year • Review effectiveness of Secretariat support • Perform an assessment of the Committee's performance • Review and assess the adequacy of the Audit Committee Charter • Confirm annually that all responsibilities outlined in this Charter have been carried out 	Delivered

9. OVERALL ASSESSMENT OF COUNCIL'S RISK, CONTROL AND COMPLIANCE FRAMEWORK

Executive and senior staff, together with the appointed auditors, regularly brief the Committee in regard to Council's risk management, financial reporting and capacity to maintain a strong system of internal controls. These presentations ensure the Committee is able to concentrate its efforts on the areas of highest potential risk to Council.

A key responsibility of the Committee is to monitor Council's internal control framework and to assist in achieving that objective has been to establish a risk based internal audit program. To this end, a number of reviews have been completed by Council's internal auditors, Pitcher Partners, in accordance with the Workplan. These internal audit reviews provide at their conclusion a set of findings and recommendations for improvement. Management then have an opportunity to respond and this is all presented to the Committee. This process has enabled the Committee to make recommendations for further improvement in the management and delivery of a range of Council auspiced services to the benefit of Council and the wider community.

In regard to external audit, the Victoria Auditor-General's Office (VAGO) appointed L D Assurance to undertake Council's audits of the Annual Financial Statements and the Annual Performance Report. The Committee reviews both of these documents very carefully and receives a report from L D Assurance prior to considering a recommendation to Council to adopt the reports. Again this year a provisional clear audit is expected to be given by the external auditor.

Lastly, the Committee has established, as part of its annual program, an internal compliance review process that covers a wide range of policies, procedures and legislative requirements. An example of this is the regular paper, instituted by the CEO, of reporting upon procurement compliance. The Committee finds this a very beneficial report.

10. CHAIR'S CLOSING REMARKS

The 2018/19 year was another full year for Council's Audit Committee.

Committee members have a diverse range of skills, experiences, knowledge and community understanding, thereby allowing them to test assumptions and make recommendations that add value to Council's operations.

On behalf of all Audit Committee members, I would like to thank VAGO appointed external auditors, L D Assurance for their work in the conduct of the external audit, and to the Council appointed internal auditors Pitcher Partners for their contribution to the internal audit program. I believe the Audit Committee has performed a valuable oversight role for Council during the 2018/19 period on many issues relating to Council's governance; financial management; accountability, control processes and risk management obligations and continues to assist Council in mitigating risks in these areas.

I particularly wish to thank Council's senior officers for their support and professional advice. Agendas, including supporting papers and reports have been well planned. Minutes have been well documented and delivered in a timely manner.

I would like to place on record the Committee's sincere thanks to our long-serving member Ms Theresa Glab whose final term concluded this year. Ms Glab's deep knowledge of the local government sector, her risk management and accounting skills and warm personality delivered a contribution that cannot be underestimated. We are lucky to welcome her replacement Mr Rob Wernli as the new Independent Member. Mr Wernli is a practicing partner in a large accounting firm, has a deep knowledge of local government and of Mitchell Shire in particular.

Finally, I thank my fellow Audit Committee Members - Councillors and Independent Members for their diligence, professionalism and contribution throughout the 2018/19 financial year. We look forward to the continuation of a very strong working relationship with Council and Council's senior staff during the 2019/20 financial year.

I commend the 2018/19 Audit Committee Annual Report to Council.

Michael Ulbrick
Chair, Audit Committee