



Minutes

Audit Committee Meeting

Monday 3 September 2012 at 3:30pm

Queenscliff Town Hall
50 Learmonth Street, Queenscliff

Distribution

Members

Mr. Roland 'Barney' Orchard

Mr. Richard Bull

Mr. Graeme Phipps

Mr. David Shaw

Cr. John Burgess

Cr. Bob Merriman

Officers

Lenny Jenner - Chief Executive Officer

Ev Wuchatsch - General Manager Governance & Community

Allison Chaloner - Senior Accountant

Invitees

Mr Martin Thompson - WHK Horwarth

Ms Natalia Stephenson - WHK Horwarth



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Appendices

Appendix	Title	Agenda Item	Distribution
Appendix 1	Minutes from the Audit Committee Meeting held on 3 July 2012	4.1 Confirmation of Minutes	Under separate cover
Appendix 2	Audit Committee self-assessment questionnaire	5.1 Audit Committee self-assessment questionnaire	Under separate cover
Appendix 3	Audit Committee Charter	5.2 Review of Audit Committee Charter	Under separate cover
Appendix 4	Draft Annual Financial Report 2011-2012	7.1 Draft Annual Financial Report 2011-2012	Under separate cover
Appendix 5	Draft Standard Statements 2011-2012	7.1 Draft Annual Financial Report 2011-2012	Under separate cover
Appendix 6	Draft Performance Statement 2011-12	7.1 Draft Annual Financial Report 2011-2012	Under separate cover
Appendix 7	2011-12 Quarterly financial report as at 30 June 2012	9.1 Draft 2011-2012 Quarterly Financial Report as at 30 June 2012	Under separate cover
Appendix 8	Local Government Community Satisfaction Survey July 2012	9.2 Local Government Community Satisfaction Survey July 2012	Under separate cover



1. OPENING OF MEETING

3:34pm

2. PRESENT & APOLOGIES

Present:

Mr. Roland 'Barney' Orchard

Mr. Richard Bull

Mr. Graeme Phipps

Mr. David Shaw

Cr. John Burgess

Cr. Bob Merriman

Lenny Jenner - Chief Executive Officer

Ev Wuchatsch - General Manager Governance & Community

Allison Chaloner - Senior Accountant

Mr Martin Thompson - WHK Horwarth

Ms Natalia Stephenson - WHK Horwarth

Apologies:

Nil

3. PECUNIARY INTEREST & CONFLICT OF INTEREST DISCLOSURES

Nil

4. AUDIT COMMITTEE MEETING – 3 July 2012

4.1. Confirmation of Minutes

Moved: Richard Bull / Seconded: Graeme Phipps

That the Minutes of the Audit Committee Meeting held on Monday 3 July 2012 (Appendix 1) be confirmed.

Carried



Requested Actions:

XXXXXXXXXX

4.2 Business Arising from Audit Committee Meeting – 3 July 2012

Business Arising - Item 6.2: Scope for next internal audit review due October 2012

Recommendation resolved at 3 July 2012 meeting:

“(b) The scope prepared by the internal auditor meets Council’s internal audit requirements, noting that further detail regarding the scope of the insurance audit will be provided to the September Audit Committee meeting.”

Officer comments:

After further discussion with Council’s internal auditor, it is recommended that insurance be removed from the list of internal audit topics, given there are already three insurance audit reviews by Council’s insurer each financial year which include consideration of insurance coverage, risk management and the claims management process. It is not proposed that the insurance topic be replaced by any other internal audit topic, for the October 2012 internal audit review, as the internal auditor considers there to be sufficient topics already included on the list for their review.

Moved: Richard Bull / Seconded: Graeme Phipps

That ‘Insurance’ is removed from the list of internal audit topics to be undertaken by the Internal Auditor.

Carried

Business Arising - Item 6.3: Audit Committee self-assessment questionnaire

Recommendation resolved at 3 July 2012 meeting:

“That:

- a) Defer consideration of this report and conduct a discussion of this item at the September 2012 Audit Committee meeting.*
- b) Officers update the Audit Committee Charter to include reference to rotation of the Chair.*
- c) The Audit Committee participate in the preparation of a more comprehensive report to be included in Council’s published Annual Report, detailing the activities undertaken by the Audit Committee in the financial year”.*

Officer comments:

- a) Refer Item 5.1 in this Agenda
- b) Refer Item 5.2 in this Agenda
- c) Refer Item 5.3 in this Agenda



Business Arising - Item 7.1: Year end interim audit

Note: The Audit Committee discussed the potential implication of the Defined Superannuation liability. The outcome of the actuarial review is not expected to be advised to Councils until the end of July 2012. The increase in liability will be reported in the 2012/13 accounts, with payment not due until 1 July 2013. Payment options will be made available to Councils.

Officer comments:

A Circular 32/2012 dated 8 August 2012, prepared by Local Government Victoria in association with the Victorian-Auditor General's Office, was distributed to all Councils to provide guidance on what should be disclosed in the 2011/12 year end accounts in terms of the unfunded superannuation liability. As a result, the Borough of Queenscliffe Council has an increase in unfunded superannuation liability of \$218,000 and consistent with the State Government Circular this has now been included in the 2011-2012 financial report.

Business Arising - Item 7.2: VAGO Letter– Better practice results for financial report preparation

Recommendation resolved at 3 July 2012 meeting:

"That the VAGO letter, indicating better practice results for Council's financial report preparation, be received and await the response to the CEO's letter to the Auditor General".

Officer comments:

No response to the CEO's letter to the Auditor General has been received at this time.

Recommendation resolved at 3 July 2012 meeting:

"That an action plan be prepared by officers, following the final audit visit in July, to address any issues which remain outstanding at that time".

Officer comments:

Refer Item 7.1 in this Agenda

Business Arising - Item 12: General Business

Recommendation resolved at 3 July 2012 meeting:

"That the General Manager Governance & Community provide information and a presentation in relation to depreciation and the long term asset replacement reserve".

Officer comments:

Refer Item 9.3 in this Agenda



5. AUDIT COMMITTEE FUNCTION

5.1 Audit Committee self-assessment questionnaire

As requested at the Audit Committee meeting in December 2011, officers prepared an Audit Committee self-assessment questionnaire for distribution to members of the Audit Committee. This questionnaire was produced using examples from other Councils and a statutory health service organisation.

Questions were arranged into the following specific areas of interest:

- Size and membership of the Audit Committee (skills and experience)
- Role and responsibilities of the Audit Committee (in relation to the Charter)
- Recruitment, induction and development of members of the Audit Committee, coupled with succession planning and rotation of Chair
- Timing, administration and conduct of Audit Committee meetings
- Scope of work considered by the Audit Committee (considers fraud, risk management, internal controls, financial and performance reporting)
- The level of support provided to the Audit Committee by Council officers
- Liaison between the Audit Committee and Council's internal auditors
- Liaison between the Audit Committee and Council's external auditors

A rating scale was applied, to record each member's view of the Audit Committee's effectiveness in meeting its responsibilities. Provision was also made for additional comments from members.

Responses were received from all five Audit Committee members to whom the questionnaire was distributed. (Note the questionnaire was not provided to the newly recruited independent member or the outgoing independent member). The responses were collated by officers and provided, along with the completed questionnaires, to the internal auditor for review.

It was decided at the Audit Committee meeting in June 2012 that this item would be deferred to the September 2012 meeting of the Audit Committee, to allow members sufficient time to review the responses and prepare for a more detailed discussion (refer **Appendix 2**).

Moved: Richard Bull / Seconded: Graeme Phipps

1. That the survey responses received from Audit Committee members, in relation to the self-assessment questionnaire, be accepted.
2. That the Internal Audit program includes a bi-annual Audit Committee performance assessment.

Carried



Request of Officers:

- *Send out Agenda items earlier, where possible*
- *Send Audit Committee members copies of Quarterly Council Plan Progress Report and Quarterly Finance Report*

5.2 Review of Audit Committee Charter

The Audit Committee Charter has been updated to include reference to rotation of the Chair (refer **Appendix 3**).

Moved: Richard Bull / Seconded: Graeme Phipps

That the updated Audit Committee Charter as presented, including reference to rotation of the Chair, be accepted.

Carried

5.3 Audit Committee activities reported in Annual Report

The annual report has in previous financial years included some information, provided by officers, in relation to the following aspects of the Audit Committee:

- Role of the Audit Committee
- Membership details
- Meeting attendance and sitting fees paid

Best practice guidelines recommend that the Audit Committee prepare a report for inclusion in the annual report of Council. This report should include information in relation to the reports received and activities undertaken/managed by the Audit Committee during the financial year.

Moved: Richard Bull / Seconded: John Burgess

That Officers work with the Audit Committee Chair to prepare a report, on behalf of the Audit Committee, for inclusion in Council's 2011-2012 Annual Report.

Carried



6. INTERNAL AUDIT

No reports received given the timing of this meeting.

Note that internal audit reviews take place in April and October of each year, with reports issued to the Audit Committee and Council in June and December of each year.

7. EXTERNAL AUDIT

7.1. Draft Annual Financial Report 2011-2012

Under the Local Government Act 1989 section 131, Council is required to prepare annual accounts comprising the financial report, standard statements and a performance statement "in the manner and form prescribed by the regulations".

These statements are to be signed and submitted to the Victorian Auditor General's Office and upon receipt of the Auditor-General's certification, a complete set is to be sent to the Minister within three months of the end of the financial year.

The Draft 2011-12 Financial Report, Standard Statements and Performance Statement are included at **Appendices 4, 5 & 6** and have been completed in line with the Victorian City Council Model Financial Report issued by the Institute of Chartered Accountants and Local Government Victoria.

It is important to note that the Draft Financial Statements are still subject to final sign off by the auditors and some changes may be required. Any such changes will be tabled at the 3 September 2012 Audit Committee meeting with the final version that is presented to the Ordinary Council Meeting on 19 September 2012 having these changes incorporated.

At the Ordinary Council Meeting to be held 19 September 2012 the Financial Statements will be presented to Council for signing and adoption in principle in order that they be forwarded to the Auditor General for final certification. The Financial Statements will then be included in the Borough's published Annual Report.

A final audit management letter is due from Council's external auditor, Crowe Horwarth and this will be forwarded to the Audit Committee if received prior to the Audit Committee meeting, otherwise it will be tabled at the meeting. Note that the external auditor will be attending the Audit Committee meeting to discuss the annual financial report and audit management letter.



Recommendation:

- a) That the Draft 2011-2012 Financial Report, Standard Statements and Performance Statement at Appendices 4, 5 and 6 be received.
- b) That the final audit management letter received from Council's external auditor, Crowe Horwarth, be accepted.

Moved: Graham Phipps / Seconded: Richard Bull

- a) That the Draft 2011-2012 Financial Report, Standard Statements and Performance Statement at Appendices 4, 5 and 6 be approved subject to any material changes from the Victorian Auditor General's Office.
- b) That the Audit Committee recommends that Council adopts the Financial Report, Standard Statements and Performance Statement in principle and forwards these documents to the Victorian Auditor General's Office for final review and certification.
- c) That the final closing report (as tabled) from Council's External Auditor, Crowe Horwarth, be accepted.

Carried unanimously

4:25pm: Mr Martin Thompson & Ms Natalia Stephenson left the Audit Committee Meeting following consideration of this agenda item.

8. REPORTS FROM THE RISK MANAGEMENT COMMITTEE

No reports received given the timing of this meeting.

Note that reports from the Risk Management Committee are issued to the Audit Committee and Council in June and December of each year.



9. INFORMATION TO NOTE

9.1 Draft 2011-2012 Quarterly Financial Report as at 30 June 2012

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.

The quarterly report is essentially a 'management' report based around Program areas and generated to ensure accountability for Program leaders and for management to monitor actual results in each area. An income statement is provided in the same format as the Budgeted Standard Income Statement showing the underlying result (this format is used in the Annual Financial Statements at year end).

The Draft Quarterly Financial Report as at 30 June 2012 is in line with the key strategy in the Council Plan to 'provide accountable governance and long term sustainable financial management'. The report is also part of Council's risk management framework to ensure financial reporting includes reporting against the adopted annual budget and that compliance with budgets is achieved.

It is important to note that the Draft Quarterly Financial Report as at 30 June 2012 may require some changes due to the Draft Financial Statements still being subject to final sign off by the auditors. Any such changes to the Draft Quarterly Financial Report as at 30 June 2012 will be tabled at the 3 September 2012 Audit Committee meeting with the final version that is presented to the Ordinary Council Meeting on 19 September 2012 having these changes incorporated.

The Quarterly Financial Report as at 30 June 2012 will be presented to Council at its meeting on 19 September 2012. This information is provided at **Appendix 7**.

Moved: Richard Bull / Seconded: Graeme Phipps

That the Quarterly Financial Report for the period to 30 June 2012 be noted.

Carried

9.2 Local Government Community Satisfaction Survey July 2012

The State Government Department of Planning and Community Development (DPCD) co-ordinates an annual community satisfaction survey of Local Government Authorities. In 2012 DPCD implemented a review of the statewide Local Government Community Satisfaction Survey contract arrangements that resulted in the appointment of a new contractor, JWS Research, and in turn, a new survey methodology and more extensive reporting of survey results than in previous years.

71 of the 79 Councils participated in the 2012 survey. JWS Research utilised telephone interviews at randomly selected households in each municipality combined with a minimum of 10% mobile telephone interviews. All interviews were with people aged 18 years and over with attention given to meeting gender and age quotas that reflect the demography of the municipality. The



sample size and results were collected from 400 interviews, with 300 interviews undertaken with 300 local residents and an additional 100 interviews with non resident rate payers. The interviews of approximately 13 minutes were conducted from 18 May to 30 June 2012.

The survey results form part of the Victorian Local Government Indicators and the headline outcomes are detailed in the Annual Reports of respective Local Government Authorities. This includes reporting in relation to five core performance measures, including:

- Community satisfaction rating for Overall Performance of Council;
- Community satisfaction rating for Council's advocacy and lobbying on behalf of the community (Advocacy);
- Community satisfaction rating for Council's community consultation and engagement (Community Consultation)
- Community satisfaction rating for Council's interaction and responsiveness in dealing with the public (Customer Service)
- Community satisfaction rating for overall Council Direction

The 2012 Local Government Community Satisfaction Survey results show that the Borough of Queenscliffe Council rates higher than the State-wide and Small Rural Councils group averages on all core performance measures. In fact, the report notes that 'the Borough of Queenscliffe Council rates significantly above both averages in all cases but Council Direction but this should not be a concern because it is difficult to improve on already outstanding performance'.

The Local Government Community Satisfaction Survey July 2012 report was presented to Council at its meeting on 15 August 2012. The Council report and the community satisfaction survey is provided at **Appendix 8**.

Moved: Graeme Phipps / Seconded: David Shaw

That the Borough of Queenscliffe Council Local Government Community Satisfaction Survey Report, July 2012, be noted.

Carried

9.3 Depreciation and the Asset Replacement Reserve

The Audit Committee requested, at its last meeting on 3 July 2012, that information be provided by Council officers with respect to the financial treatment of depreciation and the long-term asset replacement reserve.

Council has established a discretionary reserve account in its Balance Sheet to set aside funds for future years, in relation to asset replacement and specifically to address the financial challenges associated with meeting future building renewal requirements.



A presentation, regarding the financial treatment of depreciation and use of the asset replacement reserve, will be provided by the General Manager Governance & Community to members at the Audit Committee meeting.

Moved: Richard Bull / Seconded: Graeme Phipps

That the presentation, regarding depreciation and the asset replacement reserve, be noted.

Carried

10. CONFIDENTIAL ITEMS

Moved: Graeme Phipps / Seconded: Richard Bull

6:02pm: That the Audit Committee suspend standing orders and commence in-camera meeting, at which time the meeting will be closed to members of the public, to resolve on matters pertaining to the following items:

- 10.1 Confirmation of Confidential Audit Committee Meeting Minutes – 3 July 2012 (in accordance with Section 89 (2a) of the Local Government Act 1989)**
- 10.2 Status update on the Caravan Park Confidential Report from Audit Committee meeting 3 July 2012 (in accordance with Section 89 (a) of the Local Government Act 1989)**

Carried

Moved: Graeme Phipps / Seconded: John Burgess

6:08pm: That the Audit Committee cease 'in camera' meeting and resume standing orders.

Carried

11. RATIFICATION OF CONFIDENTIAL ITEMS

Moved: Graeme Phipps / Seconded: John Burgess

That the decisions made in camera be ratified by the Audit Committee.

Carried



12. GENERAL BUSINESS

The Chair of the Audit Committee extended a vote of thanks to Cr John Burgess for his long period of involvement with and service on the Borough of Queenscliffe Council Audit Committee.

13. AUDIT COMMITTEE MEETING DATES FOR REMAINDER OF 2012/13 FINANCIAL YEAR

Monday 10 December 2012 at 3:30pm

Monday 3 June 2013 at 3:30pm

14. CLOSE OF MEETING

6:10pm
