



Minutes

Audit Committee

Monday, 5 September 2016

Council Chambers, 1 Omrah Avenue, Caloundra

AUDIT COMMITTEE MEMBERS

Councillor T Dwyer	Division 2
Councillor C Dickson	Division 6
Mr P Dowling AM	Independent Member (Chair)
Mr L Scanlan	Independent Member

AUDIT COMMITTEE MINUTES

5 SEPTEMBER 2016

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Please Note: The resolutions as shown in italics throughout these minutes are the resolutions carried by the Audit Committee.

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1 DECLARATION OF OPENING

The Chair declared the meeting open at 9:02am.

2 RECORD OF ATTENDANCE AND LEAVE OF ABSENCE

AUDIT COMMITTEE MEMBERS

Councillor C Dickson	Division 6
Mr P Dowling AM	Independent Member (Chair)
Mr L Scanlan	Independent Member

EXECUTIVE LEADERSHIP TEAM

Chief Executive Officer
Acting Director Community Services
Director Corporate Services
Director Corporate Strategy and Delivery
Acting Director Infrastructure Services
Director Regional Strategy and Planning

APOLOGIES

Councillor M Jamieson	Mayor
Councillor T Dwyer	Division 2

Manager Audit and Assurance
Director Infrastructure Services
Director Community Services

ATTENDEES

Director Audit	Queensland Audit Office
Director of Information Systems Audit	Queensland Audit Office
Judith Donovan – Partner	Deloitte Touche Tohmatsu
Joanna Spanjaard – Director	Deloitte Touche Tohmatsu
Andrew Aerkikov – Director	Deloitte Touche Tohmatsu

COUNCIL OFFICERS

Coordinator Financial Accounting
Acting Manager Audit and Assurance
Coordinator Corporate Plan Reporting and Risk
Manager Human Resources
Manager Corporate Governance
Manager Fleet and Quarry
Manager Finance

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3 RECEIPT AND CONFIRMATION OF MINUTES

Committee Recommendation

Moved: P Dowling

Seconded: L Scanlan

That the Minutes of the Audit Committee held on 23 May 2016 be received and confirmed.

Carried unanimously.

4 OBLIGATIONS OF MEMBERS

4.1 DECLARATION OF MATERIAL PERSONAL INTEREST ON ANY ITEM OF BUSINESS

Pursuant to the *Local Government Act 2009*, no declarations of material personal interest were made during this meeting.

4.2 DECLARATION OF CONFLICT OF INTEREST ON ANY ITEM OF BUSINESS

Len Scanlan noted his appointment as probity adviser to SunCentral Maroochydhore Pty Ltd.

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5 REPORTS

5.1 CHIEF EXECUTIVE OFFICER'S UPDATE

5.1.1 UPDATE - CHIEF EXECUTIVE OFFICER

File No: Council meetings
Author: Chief Executive Officer
Office of the Mayor and Chief Executive Officer

EXECUTIVE SUMMARY

- 2016/17 Budget
- Financial Performance
- EIS Approved for airport expansion
- Expressions of interest called for CBD development
- Draft Caloundra Centre Master Plan
- Major Projects Update
- National Netball Team
- Organisational Climate Survey
- Managing and developing the workforce
- Corporate Plan highlights 2015/16
- A new economy
- A strong community
- An enviable lifestyle and environment
- Service Excellence
- A public sector leader

AUDIT COMMITTEE DISCUSSION POINTS

Committee congratulated council for excellent result for 2015/2016. The committee discussed the industrial relations environment and major transport infrastructure planning.

Committee Recommendation (AC16/24)

Moved: P Dowling
Seconded: L Scanlan

That the Audit Committee receive and note the report titled "Update - Chief Executive Officer".

Carried unanimously.

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5.2 EXTERNAL AUDIT

5.2.1 2015/16 INTERIM AUDIT REPORT BY QUEENSLAND AUDIT OFFICE
AND GENERAL UPDATE

File No: Financial Management
Author: Coordinator Financial Accounting
Corporate Services Department
Attachments: Att 1 - Interim Management Report 2015/16 - Queensland Audit
Office
Att 2 - Queensland Audit Office Briefing Note
Att 3 - Queensland Audit Office - Insights July 2016

Council has a statutory obligation to prepare "General Purpose" Financial Statements on an annual basis, culminating in audit certification in late October, before publication in Council's Annual Report.

Refer to timeline below.

Milestone	Documentation/Details	Date
Audit Committee Meeting	<ul style="list-style-type: none">Queensland Audit Office (QAO) closing Report to the Audit Committee for the financial year ended 30 June 2015QAO Management Certificate for the year ended 30 June 2015QAO 2016 Draft External Audit Plan	25 January 2016
Interim Audit	As per Client Strategy	18 April 2016 to 6 May 2016
Position Paper – AASB 124 <i>Related Party Disclosures</i>	Draft Policy	30 April 2016
Audit Committee Meeting	<ul style="list-style-type: none">Shell Financial Report StatementsAsset Revaluation Summary and Progress UpdateQAO Briefing PaperDraft Policy – AASB 124 <i>Related Party Disclosures</i>	23 May 2016
Asset Valuation	Supporting work papers available to audit	30 June 2016
Audit Committee Meeting	<ul style="list-style-type: none">QAO Interim Audit ReportQAO Briefing NoteDraft Financial Statements 2015/16	5 September 2016

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Milestone	Documentation/Details	Date
Final draft financial statements and current year financial sustainability statement available for audit	Final draft financial statements and current year financial sustainability statement	12 September 2016
Audit clearance of financial statements and current year financial sustainability statement	QAO closing report/management representation letter.	5 October 2016
Audit Committee Meeting (teleconference)	Audit Committee clearance (via teleconference) of financial statements and current year financial sustainability statement	5 October 2016
Council certification of financial statements and current year financial sustainability statement	Management Certificate	11 October 2016
Audit certification of financial statements and current year financial sustainability statement	QAO final management report	14 October 2016

The Queensland Audit Office performed an interim audit of Council's financial systems during May 2016. This audit included a detailed assessment of the existing system controls in order to identify any weaknesses or opportunities for improvement.

The Interim Audit Report (Attachment 1) provides the overall status of audit and summarises the principal matters that arose during the course of the audit. The report did not identify any **significant** internal control deficiencies, however it did identify the following:

- four internal control deficiencies in the areas of information systems
- a "low risk" financial reporting issue, and
- a business improvement opportunity.

The audit result confirmed Council's overall control framework as effective and represents a significant achievement from all in Council involved.

A separate Briefing Note (Attachment 2) from Queensland Audit Office containing a general update on matters relevant to Sunshine Coast Council, is also provided.

In addition, the Risk section of this report includes details of a recent fraud issue in the Accounts Payable area of Sunshine Coast Council.

AUDIT COMMITTEE DISCUSSION POINTS

Note that the QAO has advised that based on results of our testing we confirm our initial assessment of councils overall control framework as effective.

The committee discussed systems adequacy and investment across the business and recent frauds in the government sector

The Director of Queensland Audit Office was acknowledged for her contributions and professionalism.

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Committee Recommendation (AC16/25)

Moved: P Dowling

Seconded: L Scanlan

That the Audit Committee receive and note the report titled "2015/16 Interim Audit Report by Queensland Audit Office and General Update".

Carried unanimously.

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5.2.2 DRAFT 2015/16 FINANCIAL STATEMENTS

File No: Financial Management
Author: Coordinator Financial Accounting
Corporate Services Department
Attachments: Att 1 - Draft Financial Statements 2015/16
Att 2 - Amended Draft Financial Statements 2015/16 as at 2
September 2016 (*Under Separate Cover*)

The attached general purpose financial statements for 2015/16 have been prepared for review by the Audit Committee prior to their lodgment with the Auditor-General – Queensland Audit Office (QAO) (**Attachment 1**).

The majority of Council's non-current assets have been revalued during the year in conjunction with various external valuation firms and by application of appropriate indices.

Council's policy is to ensure an efficient and transparent process in the development of these statements, with regular updates provided to the members of the Committee on key issues including asset revaluations and other significant reporting events.

These statements contain an estimate for the dividends and share of profit of Council's investment in Unitywater, as the result for Unitywater was outstanding at the time of preparation of these accounts. Final adjustments will be made once the figures are known, and the carrying value of Council's investment is tested for impairment.

Council has also received the Interim Management Report from the Queensland Audit Office based on their review of our processes conducted during May this year. This report did not identify any significant internal control deficiencies and represents a major achievement from all in Council involved.

Audit Committee Discussion Points

Endorse the accounts for finance to proceed with finalisation and lodgment with the auditor general.

Committee Recommendation (AC16/26)

Moved: P Dowling
Seconded: L Scanlan

That the Audit Committee note the report titled "Draft 2015/16 Financial Statements".

Carried unanimously.

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5.3 AUDIT AND ASSURANCE

5.3.1 GOVERNANCE AND RISK REVIEW OF COUNCIL'S SUNCENTRAL DEVELOPMENT PROJECT

File No: Council meetings
Author: Manager Audit and Assurance
Office of the Mayor and Chief Executive Officer
Attachments: Att 1 - Deloitte Touche Tohmatsu Report - Governance and Risk Review of Council's SunCentral Development Project

EXECUTIVE SUMMARY

Overall SCC has implemented a number of governance and risk management controls for the SunCentral project. For example, appointing a shareholder representative, establishing the shareholder and technical reference groups, reviewing project reporting, appointing a project superintendent to perform site visits and review SunCentral claims, and through active involvement from SCC personnel. SCC has also established project governance arrangements through multiple mechanisms including Heads of Agreement between SCC and SunCentral, Development Service Contracts, a Statement of Corporate Intent and Delegations of Authority.

Deloitte noted a number of improvement opportunities in the areas of project governance and risk management. Overall, two high, four medium and one low priority rated observations were identified comprising of 24 recommendations. A summary of the issues identified during this internal audit is provided below. Whilst it is acknowledged that the project is in its early stages of delivery, given the complexity, duration, value and inherent risk of the SunCentral project, SCC should consider implementing additional controls and enhancing governance mechanisms, per the recommendations outlined in the Detailed Observations section. Improving controls and governance mechanisms during the early stage of the project may reduce risk when project development commences in earnest. Detailed below is a summary of the observations, further detail to support these summarised observations is found in Detailed Observation Section.

Summary of Observation	Priority Rating
Contract Management Plan and Project Plans: SCC has established project governance arrangements through multiple mechanisms. There would be benefit in enhancing existing documentation and centralising through development of a contract management plan. SCC should consider undertaking a regular review of SunCentral's detailed project plans.	High
HSE Duties: SCC is entrusting SunCentral and the other duty holders to discharge its concurrently held Health, Safety and Environment (HSE) duties. SCC should obtain formal legal advice to define their HSE role and responsibilities in reference to the project.	High
Risk Management: Whilst SCC has identified one strategic risk relating to the SunCentral project, it did not appear to have formally identified, managed and continuously monitored its direct risk exposures associated with the SunCentral	Medium

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Summary of Observation	Priority Rating
project in line with the SCC Risk Management Guideline and better practice risk management principles.	
Cost Control: Whilst SCC has performed detailed budgeting and forecasting activities in relation to the project, several observations were made to enhance SCC's project cost monitoring. In addition, minor exceptions were noted in the review of SunCentral's claims and monitoring of internal SCC personnel hours spent on the project.	Medium
Roles and Responsibilities: Through discussions with SCC personnel, we noted that greater clarification should be provided surrounding the role, responsibilities and duties of SCC, SunCentral and other parties. Whilst some roles and responsibilities are documented, there is role ambiguity as various documents outline different roles and responsibilities for stakeholders.	Medium
Reporting: Project reporting has evolved over time with SCC, particularly the SRG, requesting specific project information to be included in reports. Further enhancements to existing reporting is recommended to allow SCC to further maintain effective oversight over the performance of SunCentral, the progress of the project and assurance that SCC's objectives were being achieved.	Medium
Policies, Charters and Procedures: Through our examination of various policies, charters and procedures, we noted instances where information is out-of-date.	Low

Committee Recommendation (AC16/27)

Moved: P Dowling
Seconded: L Scanlan

*That the Audit Committee receive and note the report titled "**Governance and Risk Review of Council's SunCentral Development Project**".*

Carried unanimously.

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5.3.2 ENTERPRISE RISK MANAGEMENT AND REPORTING FRAMEWORK

File No: Council meetings
Author: Manager Audit and Assurance
Office of the Mayor and Chief Executive Officer
Attachments: Att 1 - SCC Enterprise Risk Management and Reporting
Framework

EXECUTIVE SUMMARY

The review entailed a risk maturity and culture assessment, and considered both formal and informal risk management processes. The maturity assessment and benchmarking was conducted against Deloitte's global risk maturity framework.

Deloitte concluded that Sunshine Coast Council were at a similar level of risk maturity to other comparable organisations (in terms of industry and size). However, there are a number of opportunities to further mature and improve their risk management activities.

To improve risk maturity, a roadmap has been developed comprising of 14 recommendations. The roadmap allows Sunshine Coast Council to move from their current state to an enhanced goal state. The goal state considers what can be achieved in the next 24 months, and what would be a target state that would be fit for purpose for Sunshine Coast Council.

Committee Recommendation (AC16/28)

Moved: P Dowling
Seconded: L Scanlan

*That the Audit Committee receive and note the report titled "**Enterprise Risk Management and Reporting Framework**".*

Carried unanimously.

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5.3.3 QUARRY OPERATIONS

File No: Council Meetings
Author: Manager Audit and Assurance
Office of the Mayor and Chief Executive Officer

EXECUTIVE SUMMARY

Internal Control and Performance Assessment

Impact / Criticality of Operation to Council	Critical	Significant	Low
Recommendations by Risk Ratings Risk Management Standard ISO 31000	Extreme 0	High 3H	Medium/Low 5M /0L
Audit Opinion	Strong	Adequate	Weak

Key Issues Identified

Although considerable improvements have been made over the last two years, limited assurance is provided due to recent Mines Inspectorate reservations around the ongoing effectiveness of the Safety and Health Management System. There is also significant scope to develop strategic business plans to address challenges to long term financial viability and to improve the condition and routine maintenance of fixed plant. Improvement opportunities include:

- Full development, implementation and continued maintenance of an effective Safety and Health Management System.
- Disclosure and compliance reporting where directives/breaches are identified by the Mines Inspectorate and Department of Environmental and Heritage Protection.
- Determine and approve risk tolerances, use of risk assessments when undertaking hazard inspections and utilisation/integration with SafePlan 3 (Corporate Safety and Health Management System).
- Development of strategic direction underpinned by the finalisation of a mines plan, asset management plan, and feasibility study around a new asphalt plant and associated business case.
- Establishment of routine maintenance schedules for fixed plant.
- Replacement of Quarryman computer system which has no technical software support and deemed inefficient due associated manual processes.
- Increased focus on invoice payments to ensure contract rates and quantities are properly checked and verified prior to payment.
- Undertaking physical stockpile checks, reconciliations, measurement and accounting for stockpile losses/waste.

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Committee Recommendation (AC16/29)

Moved: P Dowling

Seconded: L Scanlan

*That the Audit Committee receive and note the report titled "**Quarry Operations**".*

Carried unanimously.

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5.3.4 AUDIT AND ASSURANCE STATUS REPORT

File No: Council meetings
Author: Manager Audit and Assurance
Office of the Mayor and Chief Executive Officer
Attachments: Att 1 - Detailed Audit Recommendations

EXECUTIVE SUMMARY

The report provides the Audit Committee with an update on the 2015/16 and the 2016/17 Audit Plans and the status reporting on Audit Recommendations. As at September 2016, the Audit Work Plan is progressing on schedule but there has been significant increase in the number of audit recommendations as a result two reviews undertaken by Deloitte Touche Tohmatsu as follows:

- Governance and Risk Review of Council's SunCentral Development Project
- Enterprise Risk Management Framework and Reporting.

AUDIT COMMITTEE DISCUSSION POINTS

- Overall, a sound control framework has been established within our critical core systems and processes but as observed in previous years, systems and processes reviewed infrequently by audit are more likely to exhibit control and performance gaps.
- Outstanding audit action items – those not resolved by first audit committee meeting 2017, more detailed provided around progress
- Management to provide to first audit committee meeting in 2017 a convergence plan around response to the two Deloitte reports and appropriate recommendations to be provided

Committee Recommendation (AC16/30)

Moved: P Dowling
Seconded: L Scanlan

*That the Audit Committee receive and note the report titled "**Audit and Assurance Status Report**".*

Carried unanimously.

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5.4 GOVERNANCE REPORTING

5.4.1 GOVERNANCE REPORT

File No: Audit Meeting
Author: Coordinator Corporate Plan Reporting and Risk
Corporate Services Department
Attachments: Att 1 - Strategic Risks
Att 2 - Operational Risks

Internal Control and Performance Assessment

The Governance in Action program has been heavily focused over the past twelve months on rolling out the mandatory Employee Code of Conduct sessions across the organisation. This program is now completed and future training will be undertaken as part of the induction program for new employees and via an online refresher tool.

Strategic and Operational Risks continue to be monitored and this report provides information on the 231 risks rated from 'low to extreme'. It also highlights risks that are higher than the set risk tolerance. Trend data shows there has been on-going improvements to reduce the level of risks rated 'High' or over the risk tolerance level.

As part of our Complaints Management program, complaint matters elevated to the Corporate Governance Branch continue to be managed within timeframes. Analysis is done to assess the cause of each complaint and what management or system improvements can be implemented. For the 2015/16 period 103 administrative action complaints were elevated to Corporate Governance for management.

Committee Recommendation (AC16/31)

Moved: P Dowling
Seconded: L Scanlan

*That the Audit Committee receive and note the report titled "**Governance Report**".*

Carried unanimously.

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5.4.2 WORK HEALTH AND SAFETY REPORT

File No: Audit Meeting
Author: Manager Human Resources
Corporate Services Department

Internal Control and Performance Assessment

The Health and Safety Team have an additional resource in the role of Health and Safety Advisor (Audit & Investigation). The new Advisor will have the primary focus of drafting and implementing an internal organisation wide Health and Safety audit plan and reviewing accident/incident reporting and investigation processes. The Advisor's qualifications include BSc in Workplace Health and Safety Management and has vast experience in the Workplace Health and Safety field.

Drug and Alcohol education and testing has continued throughout this period with a small number of non-negative results. There has been an emphasis on broadening the scope of the testing to include all office areas as well as external work locations. Zero alcohol limits have been identified for nominated work activities and plant.

Two notifiable incidents occurred in the period April 2016 – July 2016. The first incident involved an employee receiving an electrical shock from faulty Uninterruptible Power Supply (UPS) equipment. The second incident involved a Parks & Gardens employee having an allergic reaction to a tick bite resulting in overnight hospitalisation. Both incidents were thoroughly investigated and corrective actions have been implemented to avoid recurrence.

AUDIT COMMITTEE DISCUSSION POINTS

- Reportable incidents
- Lost time injury claims
- Electrical Safety Initiatives

Committee Recommendation (AC16/32)

Moved: P Dowling
Seconded: L Scanlan

*That the Audit Committee receive and note the report titled "**Work Health and Safety Report**".*

Carried unanimously.

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6 GENERAL BUSINESS

7 NEXT MEETING

The next Ordinary Meeting will be held on 30 January 2017 in the Caloundra Council Chambers, 1 Omrah Avenue, Caloundra.

8 MEETING CLOSURE

The meeting closed at 11:00am.

Confirmed 30 January 2017.

CHAIR
