



Appendix 3

8.2 Audit & Risk Committee Meeting Minutes 4 April 2022

*Audit & Risk Committee Meeting Minutes
4 April 2022*

Ordinary Meeting of Council

Wednesday 27 April 2022 at 7:00pm

Queenscliff Town Hall



Minutes

Audit and Risk Committee Meeting

Monday 4 April 2022 at 3:30 pm
Queenscliff Town Hall

Distribution

Members

Mr Roland 'Barney' Orchard
Mr Richard Bull
Mr Graeme Phipps
Ms Helen Butteriss
Cr Ross Ebbels
Cr Fleur Hewitt

Officers

Martin Gill, Chief Executive Officer
Gihan Kohobange, Manager Financial and Corporate Services

Invitees

External Audit Provider: Crowe Australasia

Cassandra Gravenall, Partner – Audit and Assurance
Felmer Ealdama, Manager – Audit and Assurance



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Appendices

Appendix 1	Agenda Item 3.1 Minutes of the Audit and Risk Committee Meeting 6 December 2021	Issued 9 December 2021
Appendix 2	Agenda Item 4.1 Draft External Audit strategy for financial year ending 30 June 2022	Under separate cover
Appendix 3	Agenda Item 5.2 Minutes of Risk and Governance Committee (meetings held between December 2021 to March 2022)	Under separate cover
Appendix 4 (Confidential)	Agenda Item 5.3 Report on Gifts, Benefits and Hospitality	Under separate cover
Appendix 5	Agenda Item 6.1 Draft Risk Management Framework	Under separate cover
Appendix 6	Agenda Item 6.2 Draft Strategic Risk Register	Under separate cover
Appendix 7	Agenda Item 6.4 Local Authorities Superannuation Fund (LASF) defined benefit (DB) sub-plan	Under separate cover
Appendix 8	Agenda Item 7.2 Draft Budget 2022–23	Under separate cover
Appendix 9	Agenda Item 8 ICT Transformation Project Update	Under separate cover
Appendix 10	Agenda Item 9.2 Reporting to Council	Under separate cover



1. OPENING OF MEETING

The Chair, Mr Roland 'Barney' Orchard, opened the meeting at 3:30pm.

2. PRESENT & APOLOGIES

Present:

Mr Roland 'Barney' Orchard

Mr Richard Bull

Mr Graeme Phipps

Ms Helen Butteriss

Cr Ross Ebbels

Cr Fleur Hewitt

Martin Gill, Chief Executive Officer

Gihan Kohobange, Manager Finance and Corporate Services

Cassandra Gravenall, Partner – Audit and Assurance, Crowe Australasia (external audit provider)

Abbey Tatterson, Business Operations Co-ordinator (minutes)

Apologies:

Felmer Ealdama, Manager – Audit and Assurance, Crowe Australasia (external audit provider)



3. AUDIT AND RISK COMMITTEE MEETING MINUTUES

3.1 Confirmation of Minutes from Audit and Risk Committee Meeting 6 December 2021 (Appendix 1)

Moved: Helen Butteriss / Seconded: Graeme Phipps:

That the Minutes of the Audit and Risk Committee Meeting held on Monday 6 December 2021 be confirmed.

Carried

4. EXTERNAL AUDIT

Council's annual budget provides for two external audit reviews to be conducted each year, to meet all legislative requirements with respect to the annual financial and performance reports.

An interim audit is conducted in April/May each year, which includes a review of policies, processes and to review progress on actions required to be completed as part of the current year's financial report.

A final audit of Council's annual financial statements (including financial report and performance statement) is completed in August of each year, with the external auditor reporting through to management and the Audit and Risk Committee at a scheduled meeting in September of each year.

4.1 Draft External Audit strategy for financial year ending 30 June 2022

Council's external auditor, Crowe Australasia, has provided Council with the draft audit strategy for the 2021–22 year-end audit which will be undertaken by the Victorian Auditor General's Office (VAGO) and its agents in auditing local government accounts. Refer **Appendix 2**.

VAGO Local Government Sector areas of audit focus:

- Valuation of property, infrastructure, plant and equipment;
- Carrying value of capital works in progress;
- Impact of COVID-19 pandemic on financial statements;
- Accounting for government grants;
- Valuation of employee benefits expense and provisions
- Performance statements;

Moved: Graeme Phipps / Seconded: Richard Bull

That the external audit strategy for financial year ending 30 June 2022, included at Appendix 2, be received.

Carried



5. COMPLIANCE MANAGEMENT

5.1 Reports from the Victorian Auditor-General's Office (VAGO)

The Victorian Auditor-General's Office (VAGO) provides in its Annual Plan for a range of performance audits to be conducted each financial year. These performance reports typically include state government departments as well as a sample of local councils selected for audit.

The Borough of Queenscliffe was included in the performance audit conducted in 2018–19 in relation to Reporting on Local Government Performance.

The Victorian Auditor-General's Office (VAGO) has tabled the following reports with Parliament.

- **Council Waste Management Services**

<https://www.audit.vic.gov.au/report/council-waste-management-services>

The review looked at whether local councils' waste management services provide value for money. VAGO has examined data from 2019–20, council waste contracts, and practices at four selected councils.

In 2019–20, Victorian councils have spent over \$706 million on delivering waste management services. Given that the taxpayers fund council activities through rates, Parliament and the community expect to know if councils are achieving value for money.

Eighty-three per cent of councils contract out household waste services through competitive tendering, and 92 per cent contract out recycling services. Just five suppliers make up 57 per cent of the general garbage and recycling market. This means that it is difficult for councils to create any more competitive tension in the market and realise further savings.

Following VAGO's 2019 audit, Victoria's approach to waste management is undergoing significant reforms, which are due to be implemented over the next two years. The Victorian Government is introducing new governance arrangements, a new legislative framework and a new waste authority.

Even with the reforms underway, there remain capacity constraints for waste that is not suitable for recovery or recycling. The current volume of approved landfill capacity is forecast only to be sufficient for Melbourne's needs until 2026. The state government controls the increasing of this capacity and, without action, prices may increase for councils to dispose of waste.

VAGO did not make any recommendations. Significant reform is currently underway to address several of the areas of improvement VAGO has identified in this review.

- **Results of 2020–21 Audits: Local Government**

<https://www.audit.vic.gov.au/report/results-2020-21-audits-local-government#34021--2-financial-analysis>



Of the 104 entities VAGO audited, VAGO has issued a clear audit opinion for 98 entities. At the date of preparing the report, audits of six entities were still in progress.

VAGO has observed the following common weaknesses across the sector:

- Asset management and valuation processes continue to be an area in need of improvement. Robust asset management processes are essential for councils to meet community needs; and
- IT controls are another key area for improvement across the sector. With staff working from home and accessing sensitive information remotely, robust IT controls are critical.

Key recommendations:

- Council prioritise and expedite resolving internal control issues and reporting deficiencies; and
- Council prioritise resolving IT control deficiencies.

Moved: Graeme Phipps / Seconded: Richard Bull

That the Audit and Risk Committee notes the summary provided by Council officers, with respect to these VAGO reports.

Carried

5.2 Reports from the Risk and Governance Committee

The minutes of December 2021 to March 2022 Risk and Governance Committee meetings are provided at **Appendix 3**.

Moved: Helen Butteriss / Seconded: Graeme Phipps

That the Audit and Risk Committee notes the minutes of Risk and Governance Committee meetings held between December 2021 to March 2022 provided at Appendix 3.

Carried

The Audit and Risk Committee acknowledged officers' efforts to achieve efficiencies with the follow-up audits of closed internal audit recommendations. However, the ARC committee emphasised the need for an independent review of outstanding audit items. CEO agreed to come up with a process to check with the ARC before any outstanding audit recommendation is signed off by the internal Risk and Governance Committee.

5.3 Report on Gifts, Benefits and Hospitality

A report on gifts, benefits and hospitality for the period 1 July 2020 to 30 June 2021 is provided at **Appendix 4 (Confidential)**. A report for the current financial year will be tabled at September 2022 meeting.



Recommendation:

That the Audit and Risk Committee notes the report on gifts, benefits and hospitality for the period 1 July 2020 to 30 June 2021 provided at Appendix 4.

Moved: Richard Bull / Seconded: Graeme Phipps

The Audit and Risk Committee notes and welcome the full disclosure in the report on gifts, benefits and hospitality for the period 1 July 2020 to 30 June 2021 provided at Appendix 4.

Carried

6. CONTROL FRAMEWORK AND RISK MANAGEMENT

6.1 Draft Risk Management Framework

Council has developed a risk management framework based on ISO 31000: 2018 Risk Management Guidelines. The purpose of the framework is to document the principles of the risk management system, Council's commitment to risk management and how that operates internally. It will also detail the roles and responsibilities of risk management within Council, and the reporting structures that provide the Council with the appropriate oversight of risk management within the organisation.

The Risk and Governance Committee (RGC) has reviewed the draft Risk Management Framework provided at **Appendix 5** and is now presented to the Audit and Risk Committee for approval.

The draft Risk Management Framework was tabled at the December 2021 Audit and Risk Committee meeting for review by members of the Audit and Risk Committee.

Recommendation:

That the Audit and Risk Committee approves the draft Risk Management Framework provided at Appendix 5

Moved: Richard Bull / Seconded: Helen Butteriss

The Audit and Risk Committee note the draft Risk Management Framework provided at Appendix 5 that will be presented to Council for approval

Carried

6.2 Draft Strategic Risk Register



Council has developed a draft Strategic Risk Register in line with the Risk Management Framework. The Strategic Risk Register provided at **Appendix 6** has been reviewed by the RGC of Council.

An initial version of the Strategic Risk Register was tabled at the December 2021 Audit and Risk Committee meeting for review by members of the ARC.

Recommendation:

That the Audit and Risk Committee approves the format of the Strategic Risk Register provided at Appendix 6, which will be presented at every Audit and Risk Committee meeting for noting

Moved: Richard Bull / Seconded: Graeme Phipps

That the Audit and Risk Committee note the draft Strategic Risk Register and approve the format provided at Appendix 6.

Carried

6.3 Reports on any instances of unethical behaviour, fraud or corruption

There has not been any unethical behaviour, fraud or corruption reported or suspected since the last Audit and Risk Committee meeting.

Moved: Helen Butteriss / Seconded: Graeme Phipps

That the Audit and Risk Committee notes the update provided by Council officers, with respect to unethical behaviour, fraud or corruption.

Carried

6.4 Local Authorities Superannuation Fund (LASF) defined benefit (DB) sub-plan

Local Authorities Superannuation Fund (LASF) defined benefit (DB) sub-plan is a pooled superannuation arrangement and is not split into employer proportions. In addition, the LASF DB sub-plan pays both lump sum benefits and, where members are eligible, lifetime pensions.

The LASF DB sub-plan is a multi-employer sponsored plan and is a mutual scheme to allow for the mobility of the workforce between the participating employers without attaching a specific liability to particular employees and their current employer.

Therefore, there is no proportional split of the defined benefit liabilities, assets or costs between the participating employers as the defined benefit obligation is a floating obligation between the participating employers and the only time that the aggregate obligation is allocated to specific



employers is when a call is made. As a result, the level of participation of an employer cannot be measured as a percentage compared with other participating employers.

The LASF DB sub-plan provides lump sum benefits and, if members are eligible members, lifetime pensions. As at 30 June 2021, the LASF DB sub-plan had approximately 7,000 members being 1,700 active/current employee members, 4,124 lifetime pensioners and 1,227 deferred members (who may/may not convert into lifetime pensioners based on their eligibility).

Until the last lump sum/lifetime pension payment is made by the LASF DB sub-plan that extinguishes its defined benefit obligations in full, there is a potential for a funding call to be made. Any funding call that is made will be split into a number of components. A brief description of how a funding call is apportioned between the LASF DB plan participating employers is as follows:

COMPONENTS OF THE FUNDING CALL	PRE-1 JULY 1993 COMPONENT	POST-30 JUNE 1993 COMPONENT
Lifetime pension component	Apportioned to each participating employer based on the employer's share of the 30 June 1993 defined benefit salaries	
Active DB members component - pre 1 July 1993 service	Apportioned to each participating employer based on the employer's share of the 30 June 1993 defined benefit salaries	
Active DB members component - post 30 June 1993 service		Apportioned to each participating employer on the employer's share of the total active DB salaries at the date of the actuarial investigation

Once there are no active LASF DB members, the apportionment of a funding call will be based on the lifetime pension component which reflects the relevant employer's share of the 30 June 1993 defined benefit salaries. The salaries of the Borough of Queenscliffe as at 30 June 1993 were \$770,468 which represented 0.0918% of the salaries at that time.

It should be noted that in the event that a participating employer has been wound up, the DB obligations of that employer is transferred to that employer's successors and the relevant calculations would be adjusted accordingly.

If the Defined Benefit category is in an unsatisfactory financial position at an actuarial investigation or the Defined Benefit category's Vested Benefit Index (VBI) is below its shortfall limit at any time other than the date of the actuarial investigation, the Defined Benefit category has a shortfall and the Fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring.

However, the LASF DB VBI has been above the VBI shortfall limit for the last 5 years as summarised below.



	LAS Defined Benefit Plan					
	30/06/2016 (actual)	30/06/2017 (actual)	30/06/2018 (actual)	30/06/2019 (actual)	30/06/2020 (actual)	30/06/2021 (actual)
VBI	102.0%	103.1%	106.0%	107.7%	104.6%	109.8%
VBI shortfall limit	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Currently, the Trust Deed does not permit the return of surplus to an employer while the Plan has active members or beneficiaries. The Superannuation Industry (Supervision) (SIS) legislation requires the Trust Deed to permit such a transfer (amongst other requirements) before a return of surplus can occur.

Until the last lump sum/lifetime pension payment is made by the LASF DB sub-plan that extinguishes its defined benefit obligations in full, there is a potential for a funding call to be made against the BoQ. Though BoQ currently has only one active member, in the event of a funding call, BoQ share of the funding call in relation to the lifetime pension component can be significant.

However, the VBI has been well above the shortfall limit for the last six years. Hence, officers believe that the surplus made during the past years will be sufficient enough to weather the current economic uncertainties. As a result, there is less likelihood of a funding call to be made in the short term.

However, as stated above, until the last lump sum/lifetime pension payment is made by the LASF DB sub-plan that extinguishes its defined benefit obligations in full, there is a potential for a funding call to be made against the Borough of Queenscliffe. Currently, the Borough has set aside \$40,000 in a reserve account to be used for any future funding call. Based on the movements in the VBI (trend) over the past 5 years, there is no immediate necessity to increase the amount in the reserve account.

Details of the 2011 actuarial investigation and a recent update from the Vision Super are provided at **Appendix 7**.

Moved: Graeme Phipps / Seconded: Helen Butteriss

That the Audit and Risk Committee notes update provided by Council officers, with respect to Local Authorities Superannuation Fund (LASF) defined benefit (DB) sub-plan.

Carried

7. COUNCIL FINANCIAL AND PERFORMANCE REPORTING

7.1 2021–22 Quarterly Financial Report as at 31 December 2021

The 31 December 2021 quarterly financial report was presented to Council at its Ordinary Meeting on 23 February 2022 which can be accessed via the following link.

<https://www.queenscliffe.vic.gov.au/files/assets/public/documents/your-council/council-meetings/ordinary-meetings/2022/02-february/appendix-3a-23-february-2022.pdf>



The **forecast accumulated cash surplus for the financial year 2021–22 is \$234,000**, which is a \$143,000 increase from the quarter one forecast.

Additional grant income received from Better Boating Victoria, net savings in employee cost (net of the additional cost associated with consultants), savings due to the cancellation of events, and savings in cost associated with new operating initiatives, contributed to the increase in the forecasted cash surplus for the year.

A part of the additional cash surplus forecasted for the year has been used to fund the following budget allocations.

Activity	Allocation (\$)
Additional funding allocation for Queenscliffe Cultural Hub	95,000
Additional funding allocation for ICT transformation project	88,154
Town Hall audio visual upgrade	60,000
Building asset renewal work	40,000
Commonwealth road safety program	26,087
Total	309,241

Moved: Richard Bull / Seconded: Helen Butteriss

That the Audit and Risk Committee notes the 2021–22 Quarterly Financial Report as at 31 December 2021.

Carried

7.2 Draft Budget 2022–23

Council has developed the 2022–23 Draft Budget in accordance with the requirements of the Local Government Act. Councillors and officers have worked together over the past months in developing the Draft Budget to ensure it meets the needs and aspirations of our community.

A summary of the 2022–23 Draft Budget, which is still subject to changes, is provided at **Appendix 8** and officers will provide a further update at the meeting.

Moved: Graeme Phipps / Seconded: Helen Butteriss

That the Audit and Risk Committee notes the update provide in relation to the 2022–23 draft budget and provide feedback that can be incorporated into the 2022–23 draft budget before 13 April 2022.

Carried

8. INFORMATION TO NOTE



ICT Transformation Project Update

An update in relation on the BoQ ICT transformation project is provided at **Appendix 9**.

Moved: Richard Bull / Seconded: Graeme Phipps

That the Audit and Risk Committee notes the update provided.

Carried

9. AUDIT AND RISK COMMITTEE

9.1 Resignation of a Council Representative on Council's Audit and Risk Committee

Council's Audit and Risk Committee Charter provides for membership of one to three Councillors and four external members appointed by Council, all with full voting rights.

At the Ordinary Council Meeting held on 24 November 2021, Council resolved to appoint Cr Ross Ebbels, Cr Susan Salter and Cr Fleur Hewitt as its three representatives on Council's Audit and Risk Committee.

Cr Susan Salter tendered her resignation as a Borough of Queenscliffe Councillor effective 8 March 2022 and, as a result, the Audit and Risk Committee will have two Council representatives until such time that the Council decides to appoint another Councillor.

We note with sadness that Susan Salter passed away on 16 March 2022. Cr Salter will be deeply missed by her fellow Councillors, officers and our community, and we are grateful for the significant contribution she made to both Council and the Audit and Risk Committee.

Recommendation:

That the Audit and Risk Committee notes the resignation of Cr Susan Salter with effect from 8 March 2022

Moved: Richard Bull / Seconded: Helen Butteriss

That the Audit and Risk Committee notes the resignation of Cr Susan Salter with effect from 8 March 2022.

The Audit and Risk acknowledge contribution Cr Salter made to not only the Audit and Risk Committee, but the wider Borough of Queenscliff community and we are deeply saddened by her passing.

Carried

9.2 Reporting to Council



The report from the Audit and Risk Committee to Council, covering the first six (6) months of the 2021–22 financial year is provided at **Appendix 10**. The report will be included in the Chief Executive Officer’s Report to Council and tabled at the April 2022 Council meeting.

Recommendation:
That the Audit and Risk Committee endorses the report to Council provided at Appendix 10

Moved: Richard Bull / Seconded: Graeme Phipps
That the Audit and Risk Committee approves the report by this committee to Council provided at Appendix 10.

Carried

10. GENERAL BUSINESS

Personal Interest forms-

The chair noted it is important for members of the Audit and Risk committee to complete the Borough of Queenscliffe Personal Interest form, it is noted that it is not a requirement of the 2020 Local Government Act.

April Meeting-

The Audit and Risk committee after discussion unanimously agreed the April meeting was beneficial. One of the key points was it enabled to discuss the upcoming external Audit items.

11. DATES OF FUTURE AUDIT AND RISK COMMITTEE MEETINGS

Audit and Risk Committee meetings are scheduled to occur at least one week prior to an Ordinary Council Meeting, in order for the Minutes of the Audit and Risk Committee meeting to be finalised and included in the Agenda for the Ordinary Council Meeting, for acceptance by Council.

All meetings of the Audit and Risk Committee will commence at 3:30pm.

The September meeting of the Audit and Risk Committee each year is for the specific purpose of reviewing the draft financial statements and recommending that Council consider adoption of the financial statements, in principle, at its Ordinary Council Meeting in September.

Given the Audit and Risk Committee’s additional responsibilities under the new *Local Government Act 2020*, the Committee decided an additional less formal Committee meeting be conducted in March/April, the content of which will be determined by the Chair and the CEO. After the March/April 2022 meeting, the Audit and Risk Committee will review the effectiveness of this meeting.

Audit and Risk Committee Meeting	Ordinary Council Meeting
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Monday 6 June 2022	Wednesday 22 June 2022
Monday 5 September 2022	Wednesday 21 September 2022
Monday 5 December 2022	Wednesday 21 December 2022

12. CLOSE OF MEETING

Meeting Closed at __5:31__pm