



## **Appendix 4**

### **13.1 Chief Executive Officer Report**

*Report from the Audit and Risk Committee to Council*

# **Ordinary Meeting of Council**

Wednesday 27 April 2022 at 7:00pm

Queenscliff Town Hall

# Borough of Queenscliffe

## Audit and Risk Committee

### Biannual Activity Report

April 2022

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## **1. Period of this Report**

This report covers Audit and Risk Committee (ARC or Committee) activity from 1 July 2021 to 31 December 2021. This report has been reviewed by and has the agreement of all Committee members.

## **2. Purpose of this Report**

This report meets the reporting requirements to Council as mandated by the *Local Government Act 2020* (LGA) pursuant to section 54(5) and importantly provides Council with a summary of the matters that the ARC has addressed in the reporting period in discharging its responsibilities under its Charter.

The ARC's Charter is set by Council and was last reviewed and approved by Council on 27 August 2020, following changes required by the LGA.

## **3. Audit and Risk Committee**

The Committee is a formally appointed Advisory Committee of Council. The Committee does not have executive powers or authority to implement actions in any areas over which Council has responsibility. The Audit and Risk Committee does not have any management functions and is therefore independent of management.

The Committee's objective is to provide appropriate independent advice to Council on matters relevant to the Committee's Charter in order to facilitate decision-making by Council in relation to the discharge of Council's accountability requirements.

The key duties and responsibilities included in the Audit and Risk Committee Charter are:

- Monitor compliance;
- Monitor Council financial and performance reporting;
- Monitor and provide advice on risk management and fraud prevention systems and controls;
- Review internal and external audit functions; and
- Monitor and review climate change governance.

The Audit and Risk Committee consists of four independent members, appointed for a three year term, and three councillors. The chair is elected from among the independent members.

Council officers (including the Chief Executive Officer and Manager Financial Corporate Services) attend meetings but are not members of the Committee. Recommendations from each Audit and Risk Committee meeting are reported to and considered by Council.

## 4. Meetings

During the reporting period, the Audit and Risk Committee met two (2) times on the following dates:

- 6 September 2021; and
- 6 December 2021.

Attendance is shown in the table below. A quorum was achieved for each meeting.

Member	Eligible to Attend	Meetings Attended
Mr Roland 'Barney' Orchard (Chair), Independent member	2	2
Mr Richard Bull, Independent member	2	2
Mr Graeme Phipps, Independent member	2	2
Ms Helen Butteriss, Independent member	2	2
Cr Ross Ebbels	2	2
Cr Susan Salter	2	0
Cr Fleur Hewitt (appointed 24 Nov 2021)	1	1
<b>Total</b>	<b>13</b>	<b>11</b>

## 4. The Committee's Annual Work Plan

The Committee has dealt with the matters scheduled for consideration in the ARC Annual Work Plan (AWP) in the reporting period with few exceptions. An assessment of ARC performance against the AWP is provided in **Appendix A**. Details of the key activities of the ARC during the reporting period are summarised in section 5 of this report.

## 5. Key Activities for the Reporting Period

All members have made valuable contributions to the Committee's work program and agendas. The work of the ARC has continued to be guided by the Annual Work Plan (AWP). Key outcomes of the scheduled meetings are summarised below.

### 5.1 Internal Audit

The Committee received one report on internal audit reviews completed in the reporting period. The review related to:

**Review of Statutory Planning Process** - Based on the results of the review, the internal auditors' concluded that BOQ's statutory planning processes are adequate. However, they have noted three (3) areas of low risk and two (2) areas of medium risk improvement opportunities to further enhance the statutory planning function at BOQ including the adequacy of quality assurance arrangements to align council-level decisions with the Planning and Environment Act 1987, the State Planning Policy Framework and the BOQ Planning Scheme. The Committee noted that management responses to the report indicated acceptance of the recommendations and that the proposed target completion dates for the actions were acceptable subject to the review of the timelines on the inclusion of conflicts of interest section in the planning assessment report.

Outstanding internal audit recommendations - The management presented updates on the status of progress with regard to open internal audit recommendations at each ARC meeting. During the reporting period thirty five (35) open internal audit recommendations have been completed as summarised below.

Risk Rating	No of Audit Recommendations			
	Outstanding	New during the period	Complete	Outstanding
	1-Jul-21			31-Dec-21
Low	12	4	-5	11
Medium	55	2	-29	28
High	8		-1	7
<b>Total</b>	<b>75</b>	<b>6</b>	<b>-35</b>	<b>46</b>

An analysis of outstanding internal audit recommendations each review wise is given at **Appendix B**.

The Committee noted that the status of progress toward completion of internal audit recommendations was satisfactory. This progress is an indicator that Council has implemented appropriate controls to ensure that recommendations are closed out on time and that remedial actions are effective.

## 5.2 External Audit

It is a statutory requirement under the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014* that Council prepares a Financial Report, including audited financial statements in accordance with the Australian Accounting Standards and a Performance Statement, reporting audited results achieved against a set of prescribed performance indicators and measures.

Council must submit its financial statements and the performance statement to the Victorian Auditor-General Office (VAGO), to enable the issue of an audit opinion, following:

- a) review of the performance statement by the Audit Committee; and
- b) in principle adoption by Council of the performance statement.

The Committee considered the draft financial statements and the performance statement for the financial year 2020–21, during the reporting period, and recommended that Council adopt the 2020–21 Annual Financial Report and the 2020–21 Performance Statement in principle.

The Committee considered the Closing Report and the Final Management Letter issued by the VAGO in relation to the 2020–21 external audit. The management letter contained three (3) management letter points auditors had observed during the audit process, timely update of bank signatories, review of reserves balances and the outstanding management letter point in relation to excessive annual leave balances. The Committee noted that management responses to the points in the management letter indicated acceptance of the recommendations and that the proposed target completion dates for the actions were acceptable. The Committee recommended that Council accept the 2020–21 External Audit Closing Report and the 2020–21 Final Management Letter.

### **5.3 Internal Control Environment**

The Committee noted the plan for review of Council policies over the four years to 30 June 2024 at the December 2020 ARC meeting which will see many significant policies reviewed.

The Committee reviewed the following policies before being presented to Council for approval during the reporting period. The Committee made some suggestions for improvement which officers agreed to consider before the policies were submitted to Council.

- New Council Policy CP013: Procurement
- Revised Council Policy CP008: Fraud Prevention
- Revised Council Policy CP044: Sale, Exchange or Transfer of Council Land
- Revised Council Policy CP030: Asset Disposal
- Revised Council Policy CP047: User Fees and Charges
- Revised Council Policy CP019: Conservation Covenant Incentive
- Revoked, Council Policy CP017: Local Government Performance Reporting Framework (LGPRF)

In addition, the Committee noted all other policies Council has approved during the reporting period. In total twelve (12) policies have been reviewed by officers during the reporting period.

### **5.4 Risk Management**

The committee noted that the 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 also details 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 committee is in the process of reviewing the draft framework based on its shared experience and expertise to provide feedback that can be incorporated into the final version.

The Committee received briefings on Council's risk register at each ARC meeting. The Committee is satisfied with the current controls in place and the planned controls to be implemented to mitigate the risk associated with the risk events identified in the risk register. Further, the ARC reviewed all the minutes of the Risk and Governance Committee (was a part of the Compliance Committee before forming the Risk and Governance Committee) and commented where appropriate.

### **5.5 VAGO – Performance Audits**

In performance audits, VAGO examines how well public money is being spent and used. VAGO assesses whether a state or local government agency, program, or project is performing effectively, economically, and efficiently, and in compliance with all relevant legislation.

While the Borough is not directly included in all performance audits conducted by VAGO, the Committee expects officers to benchmark Council's practices and processes against the recommendations (best practices) listed in the relevant VAGO performance audit reports tabled in parliament. During the reporting period, the Committee was briefed on the relevance of recommendations included in the following report.

- Managing Conflicts of Interest in Procurement (Government Agencies)

The Committee noted that management's responses to the applicable VAGO recommendations were satisfactory.

## **5.6 Financial Performance**

The ARC has an opportunity to review in detail the financial performance reports at each meeting. The Committee was provided with updates in relation to the quarterly financial report as of 30 June 2021 and the quarterly financial report as of 30 September 2021.

Further, an update on the Financial Plan 2021-2031 was given at the December 2021 ARC meeting.

The officers briefed the Committee on the measures Council continues to pursue to ensure the financial sustainability of its operations. This has been given particular emphasis given the covid 19 period gave rise to unexpected financial and performance pressures.

## **5.7 Victorian Ombudsman's Report**

In light of the findings of the Victorian Ombudsman's investigation into Melton City Council's engagement of an IT company, Council officers tabled a report considering the Ombudsman's findings in the context of the Borough's procurement and conflict of interest procedures and protocols. The Committee is satisfied that Council has adequate controls in place to mitigate the similar risk associated with the procurement activities.

## **5.8 Insurance Arrangements**

During the reporting period, the committee considered the update Officers provided in relation to the insurance coverage of Council for the 2021-22 financial year. Based on the update provided (including additional information provided in relation to Environmental Liability (EL) insurance as requested by the ARC) and findings of the recent internal audit review covering Council's insurance arrangements, the committee is satisfied that the Council has adequate and appropriate insurance arrangements.

## **5.8 CEO Briefing**

The CEO briefed the Committee on the new organisational restructure, ICT transformation project, Council Plan 2021-2025 and the Climate Emergency Response Plan. It was agreed the CEO will continue to provide updates to the Committee on these matters due to the significant impact some of these initiatives have on Council's operations and risk profile.

## **6. Matters for Consideration during the Next Reporting Period**

In addition to business as usual matters included in the Annual Work Plan, the Committee will consider the following important matters during the next reporting period:

- Climate Emergency Response Plan (CERP) – Implementation Plan.
- Update on BoQ ICT transformation project.
- Outcomes of the tender process for the awarding of a new internal audit contract.
- The outcome of a trial additional ARC meeting set up to ensure continuity/completion of ARC responsibilities throughout the entire year.



## **7. Meeting Schedule for 2021 – 22**

The Committee's meeting schedule for the remainder of 2021-22 financial is as follows:

- 4 April 2022
- 6 June 2022

## **8. Conclusion**

Based on the information provided, the Audit and Risk Committee believes the Council has good systems, processes and controls in place to ensure efficient and effective operations that accomplish the strategic objectives of Council in a compliant manner with requirements set of Councils.

If Council wishes to be briefed by the Committee on any matters raised in this report, I would be delighted to attend as required.

Yours sincerely

Roland 'Barney' Orchard  
Chair  
On behalf of the Audit and Risk Committee  
04 April 2022

## Appendix A – Update against the Annual Work Plan for the six months ending 31 December 2021

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
<b>Financial &amp; Performance Reporting</b>					
1	Review changes in significant accounting policies and disclosures	47	Annually	n/a	Will be considered in the 2 <sup>nd</sup> half of the year
2	Review LGPRF changes	47	Annually	n/a	Will be considered in the 2 <sup>nd</sup> half of the year
3	Review annual financial report and annual performance statement	49	Annually	✓	2020–21 annual financial report
4	Review outcomes of the external audit with management and the auditors	48	Biannual	✓	2020–21 final audit in Sep 21
5	Recommend adoption of annual financial report and performance report	50 / 51 / 52	Annually	✓	2020–21 report
6	Review management finance reports and performance statements	42 / 53	Quarterly	✓	Quarterly financial reports
<b>Internal Control Environment</b>					
7	Review key policies	62	Triannual	✓	Only policies with a risk management and Finance & Accounting focus be reviewed by the Audit and Risk Committee prior to being forwarded to Council for adoption.
8	Review significant changes to key systems and consider impact of changes on Council's risk profile	63	As Required	✓	No significant changes to Council's current key systems. ARC is aware of the outcome of the IT strategy review conducted by Votar Partners Pty Ltd and Council's plans for significant improvements to its ICT (new corporate system, EDMS, Office365 etc.)
9	Ensure a program is in place to test compliance with systems and controls	59 - 65	Biannual	✓	One internal audit conducted during the reporting period
<b>Risk Management</b>					
10	Review effectiveness of Council's risk management framework	55	Every two year	✓	BoQ's draft risk management framework was presented to ARC in Dec 21 meeting
11	Review Council's risk appetite statement	55	As Required	✓	BoQ's draft risk management framework was presented to ARC in Dec 21 meeting
12	Review Council's risk profile and significant changes thereto	55	As Required	✓	BoQ's draft risk management framework was presented to ARC in Dec 21 meeting
13	Review Council's treatment plans for significant risks	54	Triannual	✓	An update on the Risk Register was given at each ARC meeting
14	Review Council's insurance programme	56	Annually	✓	2021–22 insurance arrangements

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
15	Review BCP framework and testing regime	57	Annually	x	A mock BCP/DR incident response drills/testing exercise has not been carried out by the BoQ since June 2016
<b>Fraud Prevention Systems &amp; Controls</b>					
16	Review Council's fraud prevention policy and controls (Council Policy CPoo8 is reviewed every three year)	58	As Required	✓	Reviewed at September 2021 ARC meeting
17	Review Council's fraud control plan and awareness programme	58	As Required	✓	Covered in the Council Policy CPoo8
18	Review reports on any instances of unethical behaviour, fraud and corruption	58	Triannual	✓	There has not been any unethical behaviour, fraud and corruption reported or suspected during the reporting period
19	Review actions taken to report any incidents of fraudulent or corrupt behaviour	58	As Required	n/a	No any incident of fraudulent or corrupt behaviour
<b>Internal Audit</b>					
20	Review Internal Audit charter	79	Every three year	n/a	Reviewed at December 2020 ARC meeting
21	Review Internal Audit Plan and revise if required	69	Annually	n/a	Will be considered in the 2nd half of the year
22	Review status of delivery of annual internal audit plan	70	Biannual	✓	One internal audit was planned for the reporting period and completed
23	Review scopes of proposed internal audit reviews	72 - 73	Biannual	✓	One internal audit is planned for the 2nd half of the year
24	Review reports on internal audit reviews	75	Biannual	✓	One internal audit report was reviewed and considered during the reporting period
25	Meet with internal auditor in the absence of management	81	Annually	x	ARC did not meet with internal auditors in the absence of management during the reporting period
26	Review progress by management on open audit recommendations	77 - 78	Triannual	✓	The progress against outstanding internal audit recommendations was reviewed at each ARC meeting
27	Review effectiveness of the internal audit function	81	Annually	✓	Considered along with the review of internal audit reports
28	Committee involvement in appointment of internal audit service provider	80	As Required	n/a	Current contract expires on 30 June 2022 and will be consider in the 2nd half of the year
<b>External Audit</b>					
29	Discuss with the external auditor the scope of the audit and the planning of the audit	66	Annually	n/a	Will be considered in the 2nd half of the year
30	Discuss any audit issues encountered during the course of the audit	67	Biannual	✓	2020-21 final external audit September 2021 ARC meeting
31	Ensure that management responses to any audit findings are appropriate and timely	67	As Required	✓	2020-21 final external audit September 2021 ARC meeting
32	Meet with external auditor in absence of management	68	Annually	x	ARC did not meet with external auditors in the absence of management during the reporting period

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
<b>Compliance Management</b>					
33	Review systems and processes to monitor compliance with legislation and regulations and management follow up of instances of non-compliance	41	Triannual	✓	Internal audit reviews and management responses to recommendations of the VAGO in relation to performance audit relevant to BoQ
34	Obtain briefings on any significant compliance matters - Compliance committee	41	Triannual	✓	Minutes of the monthly Compliance committee (Sep 21 ARC meeting) / minutes of the Risk and Governance Committee (Dec 21 ARC meeting)
35	Review Report on Gifts, Benefits and Hospitality	41	Annually	n/a	Will be considered in the 2nd half of the year
36	Consider reports by regulatory and integrity agencies on investigations and relevance for Council (e.g. VAGO)	83	Biannual	✓	All VAGO performance reports applicable to BoQ considered during the reporting period
<b>Reporting to Council</b>					
37	Provide Minutes to Council	34	Triannual	✓	Have provided minutes of all ARC meetings
38	Report on activities to Council	35	Biannual	✓	One report provided during the reporting period
<b>Performance Evaluation</b>					
39	Adopt an annual work program	27	Annually	✓	AWP for the FA 2021-22 was adopted in September 2021 ARC meeting
40	Assessment of Committee performance	37	Annually	✓	Considered the assessment for the FY 2020-21 in September 2021 ARC meeting
<b>Review of Charter</b>					
41	Review of Committee Charter	84	Annually	✓	Reviewed in September 2021 ARC meeting
<b>Other Matters</b>					
42	Committee member induction	38	As Required	n/a	No new committee members appointed during the reporting period
43	Consider other matters referred by Council	4	As Required	n/a	Other than the matters listed in the ARC charter, no specific matters referred to ARC by Council during the reporting period
44	Ensure a system exists and is used to recognise climate change governance is integral to the Committee's review of Council activities	82	As Required	n/a	CERP Implementation plan will be developed during the financial year 2021–22. Which will be referred to ARC for their review
<b>Meeting Schedule</b>					
45	Set Committee meeting schedule	28	Annually	✓	In place

## Appendix B – Outstanding Internal Audit Recommendations

Review		Outstanding 1 July 2021				New during the period			Complete during the period				Outstanding 31 December 2021			
		Low	Medium	High	Total	Low	Medium	Total	Low	Medium	High	Total	Low	Medium	High	Total
Risk Management Framework	Nov-17	1	3	-	4	-	-	-	(1)	(3)	-	(4)	-	-	-	-
Occupational Health and Safety	May-18	-	11	-	11	-	-	-	-	(11)	-	(11)	-	-	-	-
Records Management	May-18	1	5	3	9	-	-	-	-	-	-	-	1	5	3	9
IT Network and Security (including Cyber Security)	Oct-18	2	2	-	4	-	-	-	(2)	-	-	(2)	-	2	-	2
Fraud and Corruption Control Framework	Nov-18	-	4	-	4	-	-	-	-	(4)	-	(4)	-	-	-	-
Capital Works Framework	Nov-19	-	12	3	15	-	-	-	-	(6)	-	(6)	-	6	3	9
Human Resources Management	Nov-19	-	6	-	6	-	-	-	-	(3)	-	(3)	-	3		3
Business Continuity Planning and Disaster Recovery	Nov-19	-	5	2	7	-	-	-	-	(1)	(1)	(2)	-	4	1	5
Strategic Procurement	May-20	2	7		9	-	-	-	-	-	-	-	2	7		9
Review of Insurance (coverage & value-for-money)	Nov-20	3	-	-	3	-	-	-	(2)	-	-	(2)	1	-	-	1
Review of the Management, Oversight and Monitoring of Outsourced Service Provider	May-21	3	-	-	3	-	-	-	-	-	-	-	3	-	-	3
Review of Statutory Planning Process	Nov-21				-	4	2	6	-	(1)	-	(1)	4	1	-	5
<b>Total</b>		<b>12</b>	<b>55</b>	<b>8</b>	<b>75</b>	<b>4</b>	<b>2</b>	<b>6</b>	<b>(5)</b>	<b>(29)</b>	<b>(1)</b>	<b>(35)</b>	<b>11</b>	<b>28</b>	<b>7</b>	<b>46</b>