



Appendix 1

6.2 Audit & Risk Committee Meeting Minutes – 6 September 2021

*Minutes of the Audit and Risk Committee meeting
held on 6 September 2021*

Ordinary Meeting of Council

Wednesday 22 September 2021 at 7:00pm

Via Videoconference (Zoom)



Minutes

Audit and Risk Committee Meeting

Monday 6 September 2021 at 3:30 pm
Via videoconference

Distribution

Members

Mr Roland 'Barney' Orchard

Mr Richard Bull

Mr Graeme Phipps

Ms Helen Butteriss

Cr Ross Ebbels

Cr Susan Salter

Officers

Martin Gill, Chief Executive Officer

Gihan Kohobange, Manager Finance and Corporate Services

Invitees

External Audit Provider: Crowe Australasia

John Gavens, Partner – Audit and Assurance

Felmer Ealdama, Manager – Audit and Assurance



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Appendix 17	Agenda Item 9.3 Audit and Risk Committee Charter	Under separate cover



1. OPENING OF MEETING

The Chair, Mr Roland 'Barney' Orchard, opened the meeting at 3:33pm.

2. PRESENT & APOLOGIES

Present:

Mr Roland 'Barney' Orchard

Mr Richard Bull

Mr Graeme Phipps

Ms Helen Butteriss

Cr Ross Ebbels

Martin Gill, Chief Executive Officer

Gihan Kohobange, Manager Finance and Corporate Services

Adam Pendlebury, Business Services Accountant

John Gavens, Partner – Audit and Assurance, Crowe Australasia (external audit provider) (until 4:05pm)

Felmer Ealdama, Manager – Audit and Assurance, Crowe Australasia (external audit provider) (until 4:05pm)

Jenni Walker, Executive Assistant & HR and Corporate Governance Coordinator (minutes)

Apologies:

Cr Susan Salter

3. AUDIT AND RISK COMMITTEE MEETING – 7 June 2021

3.1 Confirmation of Minutes from Audit and Risk Committee Meeting 7 June 2021

Moved: Helen Butteriss / Seconded: Graeme Phipps

That the Minutes of the Audit and Risk Committee Meeting held on Monday 7 June 2021 be confirmed (Appendix 1).

Carried

Richard Bull noted that Council's Climate Emergency Response Plan (CERP) was not presented to the Audit and Risk Committee prior to it being adopted by Council. The CEO commented that the draft Implementation Plan of the CERP is being presented to Council in November 2021 and the draft CERP Implementation Plan will be placed on the agenda for the December meeting of the Audit and Risk Committee.



3.2 Business Arising from Audit and Risk Committee Meeting 7 June 2021.

Item	Action	Status
<u>December 2019</u> 9. Review of Council Policies	CP023 Information Technology will be further reviewed following Council's ICT strategy review.	Votar Partners Pty Ltd has issued the final report on the IT strategy review. Council has allocated funds in the 2021–22 draft budget for a new corporate system. ICT policy to be reviewed based on the new corporate system and other proposed changes to ICT resources of the Borough.
<u>December 2020</u> 13. Dates of future Audit and Risk Committee meetings	Officers to prepare a summary of agenda items if three meetings a year were held and a summary if four meetings a year were held.	Provided under the agenda item 9.2

The Chair noted that ICT strategies are notoriously fraught with risk and should be reviewed by the Audit and Risk Committee. The CEO noted details of the ICT project governance framework will be presented to the Audit and Risk Committee at its December 2021 meeting.

Items 5.1, 8.1 and 8.2 were discussed at this stage of the meeting in the presence of the two external auditor representatives, John Gavens and Felmer Ealdama. After the discussion of items 5.1, 8.1 and 8.2 the two external auditor representatives left the meeting at 4:05pm and the meeting resumed discussing items in the order listed on the agenda commencing with item 4.

4. INTERNAL AUDIT

Council's annual budget provides for two internal audit reviews to be conducted during the year, with the internal audit service provider reporting through to management and the Audit and Risk Committee at scheduled meetings in June and December of each year.

4.1 Progress by Management on Open Audit Recommendations

A summary of the current outstanding internal audit recommendations is given below. Twenty five (25) outstanding internal audit recommendations have been completed since the last Audit and Risk Committee meeting.



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Agenda for the Audit and Risk Committee Meeting 6 September 2021

Review	Period	Audit Recommendations			
		Total number of recommendations included in original IA report	Outstanding June 2021	Complete	Outstanding August 2021
Risk Management Framework	Nov-17	13	4	(1)	3
Occupational Health and Safety	May-18	21	11	(11)	
Records Management	May-18	9	9	0	9
IT Network and Security (including	Oct-18	9	4	0	4
Fraud and Corruption Control	Nov-18	22	4	(4)	
Capital Works Framework	Nov-19	20	15	(4)	11
Human Resources Management	Nov-19	11	6	(3)	3
Business Continuity Planning and Disaster Recovery	Nov-19	7	7	0	7
Strategic Procurement	May-20	21	9	0	9
Review of Insurance (coverage & value-for-money)	Nov-20	3	3	(2)	1
Review of the Management, Oversight and Monitoring of Outsourced Service Provider	May-21	3	3	0	3
Total		139	75	(25)	50

Risk Rating

High	8
Medium	33
Low	9
Total	50

(Updated 16 August 2021)

A summary of the **high risk** outstanding internal audit recommendations are provided below.

Review	Number of outstanding recommendations
Review of Records Management	3
Review of Capital Works Framework	3
Review of Business Continuity Planning and Disaster Recovery	2
Total	8



Moved: Richard Bull / Seconded: Helen Butteriss

That the Audit and Risk Committee notes the progress on outstanding actions from previous internal audit recommendations.

Carried

4.2 Scope for Internal Audit Review – October/November 2021

Council's internal auditors, HLB Mann Judd, has prepared documentation in relation to the scope of the next internal audit review to be conducted in October/November 2021 in line with the internal audit review topics for 2021 – 2023 presented at the June 2020 Audit Committee Meeting.

The proposed topic to be audited is:

- Review of Statutory Planning Process. Refer **Appendix 2**.

Officers have reviewed the proposed audit scope to ensure that it adequately covers the risk associated with the process.

Moved: Richard Bull / Seconded: Graeme Phipps

That the Audit and Risk Committee confirms Review of Statutory Planning Process be the subject of the next internal audit review.

Carried

5. 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.

5.1 Draft 2020–21 External Audit status update

Council's external auditor, Crowe Australasia, has now finalised field work of the final audit for the 2020–21 year-end accounts on behalf of the Auditor-General. No material adjustments to Council's financial report have been identified, and none are anticipated.



The Auditor-General will prepare an audit management letter to Council for management response. This management letter will be finalised and included on the Agenda for the next Audit and Risk Committee meeting scheduled in December 2021.

Moved: Helen Butteriss / Seconded: Graeme Phipps

That the Audit and Risk Committee notes an audit management letter from the Auditor-General will be provided at its December 2021 Meeting.

Carried

External auditor representative, John Gavens, provided an update on the draft audit closing report. Based on the audit, they expect to conclude that the financial report is presented fairly. They also expect to conclude that the performance statement is presented fairly. The auditors have identified a small number of minor presentation and disclosure changes in the financial report as a result of the audit review, which management has adjusted. Audit procedures had not identified any unadjusted differences. They expect to issue unmodified audit opinions.

John made additional comments on three potential management letter points auditors have observed during the audit process, namely bank account management, a locked box held by the bank and reserves. Officers advised the Audit and Risk Committee these issues were resolved. John also complimented Borough staff on the timely and comprehensive supply of information during the audit process. The Chair noted this pleasing recognition of Borough staff.

Management thanked external auditors for their support during the audit.

5.2 Engagement of External Auditor for Non-Audit Service

It is a requirement of most of the grant funding agreements to provide an audited detailed statement of receipts and expenditure relating to the approved project prepared by an independent auditor in compliance with the Australian Auditing Standards. The statement must include a definitive statement as to whether the financial accounts are complete and accurate and a statement of the balance of the funds if any for the approved project.

The Borough is required to provide audited detailed statement of receipts and expenditure relating to the following grant funding agreement for the financial year 2020–21.

- Local Roads and Community Infrastructure Program

In the past, Council has engaged Crowe Australasia (Crowe) for the purposes of auditing the detailed statements of receipts and expenditure.

Perceived risk

- Perceived potential for a conflict of interest by Crowe resulting in compromising their independence as external auditor.

Due to this perceived potential for a conflict of interest, the VAGO requires a confirmation from the Audit and Risk Committee to allow external auditors to engage in 'non-audit services'.



Reasons to engage Crowe:

- The management of the Borough plays no part in VAGO's previous or future selection and engagement of the external auditor;
- The use of the external auditor adds credibility to the reconciliation process;
- The fee for the service is minor in the context of the Borough's external audit contract (with the VAGO) making it extremely unlikely for a potential for a conflict of interest
- Crowe nevertheless review/audit transactions of major funding agreements as a part of the ongoing external audits;
- Auditors are accustomed to operating in a manner which preserves the integrity of the audit process.

Management recommends the Audit and Risk Committee endorse the appointment of Crowe Australasia for the stated non-audit services based on the reasons listed above.

Moved: Helen Butteriss / Seconded: Richard Bull

That the Audit and Risk Committee endorses the appointment of Crowe Australasia to perform non-audit services in relation to Local Roads and Community Infrastructure Program.

Carried

6. COMPLIANCE MANAGEMENT

6.1 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 Victorian Auditor-General's Office (VAGO) has not tabled a performance audit report relevant to the local government sector since the last Audit and Risk committee meeting.

6.2 Reports from the Compliance Committee

The minutes of June 2021 to July 2021 Compliance Committee meetings are provided at **Appendix 3**.

Note that at its July 2021 meeting, the Compliance Committee agreed to split into two committees, the Staff Consultative Committee and the Risk & Governance Committee. This split allows for staff with specific skills to monitor matters of risk and governance, and for a broader section of staff to focus on staff consultative matters. Going forward, the minutes of the Risk & Governance Committee will be forwarded for noting to the Audit and Risk Committee.



Moved: Richard Bull / Seconded: Graeme Phipps

That the Audit and Risk Committee notes the minutes of Compliance Committee meetings held between June 2021 to July 2021 provided at Appendix 3.

Carried

The Audit and Risk Committee complimented the existing efforts of the Compliance Committee members and noted the intent to have a greater focus on a specific risk management committee format.

7. CONTROL FRAMEWORK AND RISK MANAGEMENT

7.1 Review of Council Policies

Council policies are reviewed by officers and adopted by Council on a rolling basis, with most policies scheduled for review every three years, noting that some policies require review every year (e.g. Procurement). It is preferred that policies with a financial and risk management focus be reviewed by the Audit and Risk Committee prior to being forwarded to Council for adoption, however this is dependent on the timing of scheduled Audit and Risk Committee meetings and the allocation of staff resources to undertake the policy review work.

7.1.1 Draft Council Policies for review by the Audit and Risk Committee

- New Council Policy CP013: Procurement

Local Government Act 2020 Requirements

Procurement is covered in Sections 108 and 109 of the *Local Government Act 2020*. Council is required to prepare and adopt a procurement policy prior to 1 January 2022.

A Council must prepare and adopt a Procurement Policy which specifies the principles, processes and procedures applying in respect of the purchase of goods and services by the Council, including for the carrying out of works. The Procurement Policy must seek to promote open and fair competition and provide value for money.

The procurement policy must include the following:

- The contract value above which the Council must invite a tender or seek an expression of interest;
- A description of the criteria to be used by the Council to evaluate whether a proposed contract provides value for money;
- A description of how the Council will seek collaboration with other Councils and public bodies in the procurement of goods or services;
- The conditions under which the Council may purchase goods or services without inviting a public tender or expression of interest;
- A description of the process to be undertaken in inviting a public tender or expression of interest.



The draft policy provided at **Appendix 4**, covers all of the above requirements. Once adopted by Council, the proposed policy will replace the existing procurement policy of the Council.

The proposed policy has been developed based on the procurement policy guidelines available at <https://engage.vic.gov.au/local-government-act-2020/procurement>.

Key highlights of the draft policy are:

1. More emphasis on conflict of interest (section 1.3);
2. Minimum Spend Competition Thresholds (section 2.5) – The new Act does not specify the contract value above which the Council must invite a tender or seek an Expression of Interest (EOI). Considering the risk profile of the Council, it proposed to maintain the existing thresholds except the tender / EOI threshold for purchase of goods and services, which is increased to \$200,000 from \$150,000 and is now in line with the existing threshold for the value of work;
3. Exemptions from Publicly Advertised Tender, Quotations and Expression of Interest Requirements (section 2.6);
4. Public Tender Requirements (section 2.7);
5. Contract Management, especially contract variations (section 2.8);
6. Involvement of a probity advisor (section 2.9);
7. Collaborative Procurement (section 2.10); and
8. Performance Indicators and report annually to the Audit & Risk Committee and the Council (section 3.4).

The following draft Council Policies are provided, at **Appendix 5**, for review by the Audit and Risk Committee, prior to being considered by Council for adoption at its Ordinary Meeting in September 2021:

- **Revised Council Policy CP008: Fraud Prevention**

The purpose of this policy is to demonstrate the Borough of Queenscliffe's commitment to the prevention, deterrence, detection, investigation and reporting of all forms of fraud.

During the review process recommendations stated in various internal audit reports in relation to fraud prevention controls, have been considered.

Key changes are:

1. Making it mandatory for employee to sign off on the Employee Code of Conduct before commencing employment. This requirement is currently in place as a best practice. (section 1.3);
2. Position descriptions of key personnel and senior management include reference to fraud and corruption control as a primary accountability (section 1.3); and
3. Defined responsibilities of the Fraud Control Officer (inform the Chair of the Audit and Risk Committee immediately, when a suspected fraudulent activity has been reported / keep a record of details relating to Fraud and Corruption incidents / report is tabled at every Audit and Risk Committee if there has been any unethical behaviour, fraud and corruption reported) (section 5).



Graeme Phipps noted the proposed line in this policy: 'Fraud committed against the Council will be pursued in the civil and criminal courts', should be changed to: 'Fraud committed against the Council will be pursued to the fullest legal extent possible' (or similar) given Council cannot initiate criminal proceedings in matters of fraud.

- **Revised Council Policy CP044: Sale, Exchange or Transfer of Council Land**

The purpose of this policy is to assist Council and officers in determining the procedures to be followed in the sale, transfer or exchange of Council Land, in compliance with legislation and in line with sound management practice.

Key changes are:

1. Removed the option of using proceeds from the sale of land in attracting matching grant funds from other levels of government for projects not generating additional revenue or reducing operating expenses (section 5), and
2. Updated legislative requirements in line with the *Local Government Act 2020*.

- **Revised Council Policy CP030: Asset Disposal**

The purpose of this policy is to provide direction for the disposal and rationalisation of Council assets when the assets are no longer required to meet agreed services or when there is no clear need for Council to retain ownership of the asset.

Key changes are:

1. Approval limit of members of Executive Management Team, other than the CEO to commence disposal, reduced to \$5,000 from \$40,000 (section 1),
2. Only assets valued at less than \$300 can be sold internally (section 4.1), and
3. Report to the CEO quarterly on asset disposals (section 6).

- **Revised Council Policy CP047: User Fees and Charges**

The purpose of this policy is to supplement Council's Revenue and Rating Plan, for the setting of fees and charges, which is applied consistently across the Borough in order to enhance accountability and provide transparency to the community in Council's decision making process.

Key changes are:

Mainly wording changes to refer the policy to new revenue and rating plan.

- **Revised Council Policy CP019: Conservation Covenant Incentive**

The purpose of this policy is to determine circumstances when Council will offer a rate incentive via a Conservation and Land Management Rebate. The aim of this rate incentive is not to compensate landholders for lost land use opportunities; but rather, to provide a contribution to the costs of managing and protecting the conservation values of their land.

Only minor wording changes have been proposed.

- **To be revoked, Council Policy CP017: Local Government Performance Reporting Framework (LGPRF)**



This policy, provided at **Appendix 6**, was first adopted by Council on 29 April 2015, and last reviewed on 1 March 2018. The purpose of this policy was to outline the Borough of Queenscliffe's commitment to achieving the LGPRF statutory reporting requirements.

However, upon review of this policy by Council officers, it became evident that there is no requirement for Council to have a separate policy due to the following reasons:

1. This is a regulatory requirement as per the *Local Government Act 2020* and the *Local Government (Planning and Reporting) Regulations 2020*;
2. LGV issue a better practice guide each year to help Council in meeting the statutory requirements relating to the LGPRF framework; and
3. The better practice guide covers all areas of Council policy CP017 with the most up to date details.

Moved: Graeme Phipps / Seconded: Helen Butteriss

That the Audit and Risk Committee:

- a. **Endorse the draft new Council Policy CP013: Procurement included at Appendix 4:**
- b. **Endorse the draft revisions to Council Policies included at Appendix 5:**
- c. **Endorse to revoke Council Policy CP017: Local Government Performance Reporting Framework (LGPRF) provided at Appendix 6; and**
- d. **Recommend that Council consider adoption of these recommendations at its Ordinary Meeting in September 2021.**

Carried

7.1.2 Council Policies previously reviewed by the Audit and Risk Committee and adopted by Council

Council approved the following draft policies previously endorsed by the Audit and Risk Committee, since the last Audit and Risk Committee meeting in June 2021.

- Revised Council Policy CP031: Rates Assistance
- Revised Council Policy CP038: Waste Management
- Revised Council Policy CP041: Residential Vacant Land Rate
- Revised Council Policy CP017: Risk Management
- Revised Council Policy CP011: Investment of Available Funds

7.1.3 Other Council Policies adopted by Council

Council has adopted the following policies since the last Audit and Risk Committee meeting in June 2021.

- **CP048 COVID-19 Financial Hardship**



This policy was first adopted by Council on 23 April 2020 in response to the COVID-19 pandemic. The purpose of this policy is to:

- set out the temporary measures the Borough of Queenscliffe will adopt to provide assistance to ratepayers experiencing financial hardship due to COVID-19;
- establish assistance measures that minimise post emergency financial stress for ratepayers; and
- extend the principles with the current Rates Assistance Policy through this policy to all rateable properties within the Borough of Queenscliffe.

Key changes are:

Apart from minor wording changes, the current concessions have been extended until 30 June 2022.

CP001 Asset Management

This policy was first adopted by Council on 6 April 2004 and last revised in March 2018. The purpose of this policy is to outline Council's commitment to manage and care for its assets in a way that assists its vision, and meets the needs of the community, both now and in the future.

Key changes are:

- Update to 'Context' to reflect current day value of assets;
- Add heading 'Purpose' to reflect current template format;
- Minor grammatical amendments to 'Definition' of Asset Management and AM Strategy;
- Insert 'Other reference' to reference Local Government Asset Management – Better; and
- Practice Guide, Local Government Victoria, 2015.

CP002 – Australia Day Awards – Revised (renamed CP002 Community Excellence Awards)

CP002 Australia Day Awards policy was first adopted by Council in August 2003 and last revised in September 2017. The purpose of the policy was to clearly set out the available award categories and the nomination and selection processes for awards that formed part of Australia Day celebrations in the Borough of Queenscliffe.

Council officers recommended that the CP002 Australia Day Awards be renamed CP002 Community Excellence Awards and that the presentation be made at the annual Volunteers celebrations. The revised policy is largely based on the current Australia Day Awards program but now shifts the focus to community excellence generally rather than linking specifically to Australia Day.

Moved: Richard Bull / Seconded: Graeme Phipps

That the Audit and Risk Committee notes the policies recently adopted by Council.

Carried



7.2 Risk Register

Risk management committee meetings are held monthly as a part of the Compliance Committee, which incorporates the Risk Committee. The current risk register is provided at **Appendix 7** and there has not been any material change to the risk register since the last updated version provided to the Audit and Risk Committee in June 2021.

Note that at its July 2021 meeting, the Compliance Committee agreed to split into two committees, the Staff Consultative Committee and the Risk & Governance Committee. This split allows for staff with specific skills to monitor matters of risk and governance, and for a broader section of staff to focus on staff consultative matters. Reviewing Council's risk register will be a standing agenda items for the Risk & Governance Committee.

Moved: Richard Bull / Seconded: Helen Butteriss

That the Audit and Risk Committee notes the risk register provided at Appendix 7.

Carried

7.3 Business Continuity Plan (BCP) and Testing Regime

Council's business continuity plan and the disaster recovery plan were reviewed and updated in October 2019.

A mock BCP/DR incident response drills/testing exercise has not been carried out by the BoQ since June 2016. (Note that annual mock exercises are conducted of Council's Municipal Emergency Management Plan.)

However, the Business Continuity Committee has met regularly since March 2020 due to the global COVID-19 pandemic, with the most recent Business Continuity Committee meeting held on 23 August 2021. At this 23 August 2021 meeting, the Committee agreed that a mock test of its Business Continuity Plan at this time is not required due to the real life test that COVID has provided. A meeting has been set for September 2021 in which the Committee will de-brief and evaluate how the BCP has performed to date during the COVID pandemic. It is anticipated this evaluation will result in an updating of the Business Continuity Plan.

Moved: Helen Butteriss / Seconded: Graeme Phipps

That the Audit and Risk Committee notes the summary provided by Council officers, with respect to business continuity planning and testing regime.

Carried

7.4 Reports on any instances of unethical behaviour, fraud and corruption

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



Moved: Graeme Phipps / Seconded: Richard Bull

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

Carried

7.5 General Ledger Reconciliations

Reconciliations are a fundamental control check for fraudulent activity and to prevent financial statement errors. An update on the status of the bank and general ledger reconciliations has been provided at 30 June 2021. Reconciliations have been categorised into three risk categories based on the value of the unreconciled items (excluding timing differences) as a percentage (%) to the ledger balance of the each reconciliation.

Risk Category	No. Reconciliations
Low risk – zero unreconciled value	73
Medium risk – less than 5% and \$5,000 unreconciled value	0
High risk – more than 5% and \$5,000 unreconciled value	0
Total	73

Moved: Graeme Phipps / Seconded: Helen Butteriss

That the Audit and Risk Committee notes the update provided by Council officers, with respect to general ledger reconciliations.

Carried

7.6 Victorian Ombudsman’s report, Investigation into Melton City Council’s engagement of IT company MK Datanet Pty Ltd

The Victorian Ombudsman’s report, investigation into Melton City Council’s engagement of IT company MK Datanet Pty Ltd, was tabled in the Victorian Parliament in June 2021.

A full copy of the report is available by accessing the following web link:

https://assets.ombudsman.vic.gov.au/assets/Reports/Parliamentary-Reports/Melton-City-Council/VO-PARLIAMENTARY-REPORT_Melton-City-Council_June-2021.pdf?mtime=20210604123041



The report included concerning findings about the oversight of procurement and conflicts of interest at the council. Specifically that a former council staff member failed to declare a conflict of interest, that he had a direct interest in MK Datonet and financially benefited from the company's contract with the council. The Ombudsman also found that the council failed to manage the performance of MK Datonet.

The findings of the report highlight the necessity of good procurement systems and governance practices by all councils.

In light of the findings of the Ombudsman, Council officers have considered the Ombudsman's findings in the context of the Borough's procurement and conflict of interest procedures and protocols as summarised in the **Appendix 8**.

Moved: Helen Butteriss / Seconded: Richard Bull

That the Audit and Risk Committee notes the summary provided by Council officers, with respect to the above Victorian Ombudsman's report.

Carried

7.7 2021–22 Insurance Arrangements

The Borough has renewed all its insurance arrangements for 2021–22 without any change to the existing scope of covers. JLT Risk Solutions managed the renewal process on behalf of the Council except for the WorkCover insurance. During the renewal process, Council officers considered various options to revise the coverage of some policies considering the past claim experience. However, weighing the additional risk against the cost savings, it was decided to maintain coverage of reviewed policies at the current levels. Overall there is a 3.5% increase in insurance premium in 2021–22. Though Council has a very satisfactory claim history, due to the "hard market" condition in the insurance industry (insurers tend to withdraw capacity, increase rates and limit covers), there are significant premium increases in some policies as provided at **Appendix 9** (confidential).

Further, during the 2021–22 renewal process, it was considered whether Council needs an Environmental Liability (EL) insurance coverage. This was proposed by the internal auditors during the recent internal audit review of Insurance (coverage & value-for-money).

Council decided that there is no requirement for a EL insurance, since Council does not involve or have any plan to be involved (even in planning stage) in near future in any of the operations listed below which may lead to environmental liability risk:

- Waste, Chemicals, Fuel;
- Bulk storage of materials;
- Waste water;
- Industrial processes;
- Transportation of materials;



- Construction works in environmentally sensitive locations;
- Contaminated land from historical operations; and
- Fire hazards.

Recommendation:

That the Audit and Risk Committee notes the update provided by Council officers, with respect to 2021–22 insurance arrangements.

Moved: Richard Bull / Seconded: Graeme Phipps

That the Audit and Risk Committee notes the update provided by Council officers, with respect to 2021–22 insurance arrangements, and requests officers to advise on completeness of insurance in respect of environmental responsibilities.

Carried

The Audit and Risk Committee also requested that Council officers send out advice on the arrangements and adequacy of the insurance coverage in place for members of the Audit and Risk Committee.

Management confirmed that Councillors' and Officers' liability insurance cover, does include Council committees (including Audit and Risk Committee).

8. COUNCIL FINANCIAL AND PERFORMANCE REPORTING

8.1 Draft 2020–21 Performance Statement

The Draft 2020–21 Performance Statement is included at **Appendix 10** and has been prepared in line with the "Local Government Better Practice Guide 2020–21 Performance Statement" issued by Local Government Victoria.

This statement has been prepared under the transitional provisions included in the *Local Government Act 2020* and the *Local Government (Planning and Reporting) Regulations 2020* which effectively mean the requirements under the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014* remain for the 2020–21 reporting period.

The Draft Performance Statement is currently subject to final review by the Auditor-General, which may result in further changes. The final version of the Performance Statement will be recommended to Council for certification and adoption in principle prior to being forwarded to the Auditor-General to issue an audit opinion.

In summary, Council has performed well against all performance indicators although some reported indicators are impacted by accounting adjustments and timing of receipt of grant income as mentioned below.

- Expenses per head of municipal population



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Indicator	2019–20	2020–21
Expenses* per head of municipal population	\$4,018	\$4,282

*excluding capital expenditure

Total expenses for 2020–21 includes a \$542,000 accounting loss associated with a building demolition and a \$864,000 reclassification (capital to operating) of expenditure incurred on infrastructure assets owned by third parties in relation to a road upgrade project. Excluding the impact of these accounting adjustments, the result for 2020–21 is \$3,815.

- Recurrent grants per head of municipal population

Indicator	2019–20	2020–21
Recurrent grants per head of municipal population	\$562	\$279

Decrease is mainly due to the lower % of Financial Assistance Grant (FAG) received in advance in 2020–21 compared to 2019–20 and the redirection of grant funding for home care package services (home care package services are now provided through Bellarine Community Health and Council receive a fee income instead of grant).

- Expenses per property assessment

Indicator	2019–20	2020–21
Expenses per property assessment	\$3,913	\$4,016

Significant increase in expenses per property assessment is due to the reasons explained above under the Expenses per head of municipal population. Excluding the impact of these accounting adjustments, the result for 2020–21 is \$3,714.

- Adjusted underlying result

Indicator	2019–20	2020–21
Adjusted underlying result ([Adjusted underlying surplus (deficit)/ Adjusted underlying revenue] x100)	-3.27%	-13.71%

Underlying result indicates whether the Council generates a surplus in the ordinary course of business.

Council reported an underlying deficit of \$1,553,000 (-13.71%) for the 2020–21 financial year which is largely driven by accounting adjustments for demolished assets and a reclassification of capital expenditure as operating expenditure for reporting purposes.

Excluding the impact of these accounting adjustments, Council has achieved an underlying deficit of \$149,000 (-1.31%) mainly driven by the loss of income from tourist parks due to the pandemic.



Moved: Graeme Phipps / Seconded: Richard Bull

That the Audit and Risk Committee recommends that Council adopt the 2020–21 Performance Statement in principle, as presented in Appendix 10.

Carried

8.2 Draft 2020–21 Annual Financial Report

The Draft 2020–21 Financial Report is included at **Appendix 11** and has been prepared in line with the “Local Government Better Practice Guide Model financial report 2020–21” and the “Local Government Model Financial Report 2020–21” issued by Local Government Victoria.

This report has been prepared under the transitional provisions included in the *Local Government Act 2020* and the *Local Government (Planning and Reporting) Regulations 2020* which effectively mean the requirements under the *Local Government Act 1989* and the *Local Government (Planning and Reporting) Regulations 2014* remain for the 2020–21 reporting period.

The Draft Financial Report is currently subject to final review by the Auditor-General, which may result in further changes. The final version of the Financial Report will be recommended to Council for certification and adoption in principle prior to being forwarded to the Auditor-General to issue an audit opinion. The Financial Report will then be included in the Borough’s published 2020–21 Annual Report.

Please note that the financial report will be appropriately formatted when translating in to the Council’s 2020–21 annual report design.

Moved: Graeme Phipps / Seconded: Richard Bull

That the Audit and Risk Committee recommends that Council adopt the 2020–21 Annual Financial Report in principle, as included at Appendix 11.

Carried

8.3 Draft 2020–21 Report of Operations – Governance and management checklist

The Local Government Performance Reporting Framework (LGPRF) requires the inclusion of the governance and management checklist in the Report of Operations, which must be certified by the Mayor and Chief Executive Officer.

The governance and management checklist measures whether Council has strong governance and management frameworks in place covering community engagement, planning, monitoring, reporting and decision-making.

Council has met all 24 of the qualitative measures included in the governance and management checklist as at 30 June 2021.



The Draft 2020–21 Governance and Management Checklist is included at **Appendix 12** and has been prepared in line with the *Local Government Better Practice Guide 2020–21: Report of Operations* issued by Local Government Victoria.

Moved: Helen Butteriss / Seconded: Graeme Phipps

That the Audit and Risk Committee recommend that Council include the Governance and management checklist, included at Appendix 12, in the Report of Operations section of the Annual Report 2020–21.

Carried

8.4 Fair Value Assessment (Property, Plant, Equipment and Infrastructure)

At the June meeting, the Audit and Risk Committee noted the officer's conclusion in relation to fair value assessment of Council's physical assets as at 30 June 2021 as mentioned in the position paper presented, and noted the assessment is to be reviewed again before finalising the 2020–21 financial year end. Officers have now reviewed the position paper based on the feedback received from Council's external auditors and an updated version is provided at **Appendix 13**.

Moved: Richard Bull / Seconded: Helen Butteriss

That the Audit and Risk Committee endorses the officer's conclusion in relation to fair value assessment of Council's physical assets as at 30 June 2021 as mentioned in the position paper provided at Appendix 13.

Carried

9. AUDIT AND RISK COMMITTEE

Council's Audit and Risk Committee membership comprises Councillors nominated by Council and up to four independent members.

9.1 Requirements of the Local Government Act 2020

The *Local Government Act 2020* (the Act) expands the scope of audit and risk committees, including support for the committee to assume a broader risk management role over and above financial auditing. Under the new arrangements, councils must adopt a charter for the Audit and Risk Committee that satisfies a number of requirements listed in the Act. Membership of the committee also varies from previous requirements for Audit Committees.

There are five new requirements that Audit and Risk Committees must meet:

1. Audit and Risk Committee Charter

The council must prepare and approve a committee charter and establish the committee (appoint members) by 1 September 2020 (complete).



2. Reporting to council
The committee must report to council twice yearly; the report must include the committee's findings and recommendations.
3. Membership
A majority of committee members must be independent of council; the chair must not be a councillor and members of council staff must not be committee members. Collectively, the committee must have expertise in financial and risk management and experience in public sector management.
4. Self-assessment
The committee must undertake an annual assessment of its own performance against the charter and report on this to council.
5. Work plan
The committee must adopt an annual work plan.

So far, the Audit and Risk Committee has met requirements in relation to items 1, 3, and 5 above. The Audit and Risk Committee has reviewed and approved the Audit and Risk Committee Self-Assessment Survey template provided at December 2020 meeting.

Reporting to council

The report from the Audit and Risk Committee to Council, covering the entire 2020–21 financial year is provided at **Appendix 14**. The report will be included in the Chief Executive Officer's Report to Council and tabled at the September Council meeting.

Self-assessment

The Audit and Risk committee has undertaken an assessment of its own performance against the charter. The consolidated result of the self-assessment is given at **Appendix 15**.

Moved: Graeme Phipps / Seconded: Helen Butteriss

That the Audit and Risk Committee:

- a. **Notes the update provided in relation to new requirements that Audit and Risk Committees must meet as per the Local Government Act 2020,**
- b. **Endorse the report to Council provided at Appendix 14, and**
- c. **Endorse the consolidated result of the annual self-assessment provided at Appendix 15.**

Carried

9.2 Number of Audit and Risk Committee Meetings

At the December 2020 Audit and Risk Committee meeting, members expressed interest in having four meetings a year instead of three due to the additional requirements that the Audit and Risk Committee needs to meet as per the *Local Government Act 2020*.



Subsequently officers provided comparative work plans provided at **Appendix 16** for four meetings a year and three meetings a year.

Recommendation:

That the Audit and Risk Committee to advise officers about the number of Audit and Risk Committee meetings for the financial year 2021–22 and beyond.

Moved: Graeme Phipps / Seconded: Helen Butteriss

That the Audit and Risk Committee in 2021/22 proposes a 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.

Carried

9.3 Audit and Risk Committee Charter

An annual review of the Audit and Risk Committee Charter is a requirement stated in the Annual Work Plan of the Audit and Risk Committee.

Officers have reviewed the Charter but no change is proposed.

A copy of the Audit and Risk Committee Charter is provided at **Appendix 17**.

Moved: Richard Bull / Seconded: Graeme Phipps

That the Audit and Risk Committee to review and advise officers about the Audit and Risk Committee Charter.

Carried

10. INFORMATION TO NOTE

10.1 Victorian Ombudsman’s Report – Investigation into how Local Councils Respond to Ratepayers in Financial Hardship

In August 2020 the Victorian Ombudsman launched an investigation into council hardship relief for homeowners (ratepayers who cannot pay rates on their primary residence).

The report has now been completed and was tabled in Parliament in May 2021. Officers have considered the key recommendation of the report in reviewing the “Council Policy CP031: Rates Assistance” which the Audit and Risk Committee approved in its June 2021 meeting.



Key findings

- Almost all councils had a hardship policy but they varied greatly;
- Councils offered relief to ratepayers during COVID-19;
- Information about hardship relief can be hard to find;
- Many councils encourage ratepayers in financial hardship to go on payment plans;
- Councils do not always tell ratepayers their rates can be deferred or waived;
- Many councils charge high penalty interest, currently 10 per cent, on unpaid rates;
- Councils had an over reliance on debt collectors;
- Some councils were too quick to sue, including litigation against victims of family violence and people with mental health issues; and
- Council hardship practices compare poorly with sectors such as banks, energy and water.

Key Recommendations

- Capping councils' ability to charge high penalty interest (**BoQ** – 0% interest on deferred rates in the revised rates assistance policy, further the revised policy to provides rates and interest waivers for ratepayers facing financial hardships).
- A stronger oversight of debt collectors (**BoQ** – Rely mainly on the in-house process to collect outstanding rates and charges. A debt collecting agency is used only as the last resort. On average 30 cases out of more than 3,000 assessments refer to the debt collecting agency for follow up in a year).
- New laws requiring councils to publish hardship information making it easier for ratepayers to know their rights (**BoQ** – Revised rates assistance policy and the new revenue and rating plan are available on the Council's website. Specific details about the hardship assistance policy presented to the community at the community presentation of 2021–22 draft budget).
- Issuing standards for rates hardship relief, including where rates debts are associated with family violence (**BoQ** – Rates assistance policy will be updated to capture any such standards. Council will consider any serious or difficult circumstances in determining the appropriate hardship assistance in line with the revised policy. The revised policy provides, if the applicant is not satisfied with the Council's advice to seek an opinion from an independent Financial Councillor).
- Legal action to be the last resort (**BoQ** – After Council has been through Council's in-house process of escalation, as a last resort, Council may proceed to recover any outstanding rates and charges via the Magistrates' Court. Only one court action in 2018–19 and no court actions since then).

A full copy of the Ombudsman report is available by accessing the following web link:

<https://assets.ombudsman.vic.gov.au/assets/Reports/Parliamentary-Reports/Financial-Hardships/Investigation-into-how-local-councils-respond-to-ratepayers.pdf?mtime=20210513161712>



Moved: Helen Butteriss / Seconded: Graeme Phipps

That the Audit and Risk Committee notes the update provided by officers in relation to the Victorian Ombudsman’s Report – Investigation into how Local Councils Respond to Ratepayers in Financial Hardship.

Carried

11. GENERAL BUSINESS

The CEO gave an update to the Committee on the staff organisational restructure.

12. 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.

Audit and Risk Committee Meeting	Ordinary Council Meeting
Monday 6 December 2021	Wednesday 15 December 2021

13. CLOSE OF MEETING

Meeting Closed at 5:33pm.