



Appendix 2b

11.1 Chief Executive Officer Report

*Borough of Queenscliffe Audit and Risk Committee
Biannual Activity Report September 2021*

Ordinary Meeting of Council

Wednesday 22 September 2021 at 7:00pm

Via Videoconference (Zoom)

Borough of Queenscliffe

Audit and Risk Committee

Biannual Activity Report

September 2021

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1. Period of this Report

This report covers Audit and Risk Committee (ARC or Committee) activity from 1 September 2020 to 30 June 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. It is the first such report under the new LGA.

The ARC's Charter is set by Council and was last reviewed and approved by Council on 27 August 2020 following the necessary changes required by the new 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
- Integration of climate change governance.

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

Council officers (including the Chief Executive Officer, General Manager Organisational Performance and Community Services, and Manager Financial 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 three (3) times on the following dates:

- 7 September 2020;
- 7 December 2020; and
- 7 June 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	3	3
Mr Richard Bull, Independent member	3	3
Mr Graeme Phipps, Independent member	3	3
Ms Helen Butteriss, Independent member	3	3
Cr Ross Ebbels	3	3
Cr Susan Salter	3	3
Cr Bob Merriman (retired 24 Oct 2020)	1	1
Total	19	19

4. The Committee's Annual Work Plan

The Committee has dealt with the majority of the matters scheduled for consideration in the ARC Annual Work Plan (AWP) in the reporting period. 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 three reports on internal audit reviews completed in the reporting period. These reviews were all scheduled in the 2020–21 internal audit plan. The reviews related to:

- **Insurance (coverage and value-for-money)** – The internal auditor concluded that the BOQ has adequate and appropriate insurance (coverage and value-for-money). There are three (3) areas of low risk in which opportunities for improvement have been identified by the internal auditor. 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.
- **Management, Oversight and Monitoring of Outsourced Service Providers** – Based on the results of the review, internal auditors believe that the Council has good systems, processes and controls for the management of outsourced services. However, they have identified three (3) areas of low risk which present opportunities for improvements in relation to formal and regular performance monitoring, and reviewing the Contracts Register. The Committee noted that the management responses to recommendations indicated strong acceptance of the need to make the improvements.
- **Follow-up review, Fraud and Corruption Control Framework** – The internal auditors verified that six (6) of the eight (8) outstanding audit recommendations from the previous internal audit review in relation to the “Fraud and Corruption Control Framework”, conducted in May 2018, are now completed. The remaining two are partially completed and progressing to full completion by December 2021. The Committee noted that management responses to the remaining recommendations and the proposed target completion dates for the actions were acceptable.

Internal audit recommendations - A review of past internal audit recommendations was undertaken and as a result the below table reflects a backlog of issues deemed not satisfactorily dealt with. The management presented updates on the status of progress with regard to open internal audit recommendations at each ARC meeting. During the reporting period fifty three (53) open internal audit recommendations have been completed as summarised below.

Review	Period	Audit Recommendations			
		Outstanding 1 July 20	New during the period	Complete	Outstanding June 2021
Review of Purchasing and Accounts Payable (including Data Analytics)	Nov-17	3		(3)	-
Risk Management Framework	Nov-17	5		(1)	4
Occupational Health and Safety	May-18	13		(2)	11
Records Management	May-18	9		0	9
Credit Cards	Oct-18	2		(2)	-
IT Network and Security (including Cyber Security)	Oct-18	5		(1)	4
Fraud and Corruption Control Framework	Nov-18	19		(15)	4
Capital Works Framework	Nov-19	19		(4)	15
Human Resources Management	Nov-19	11		(5)	6
Business Continuity Planning and Disaster Recovery	Nov-19	7		0	7
Management of Caravan Parks, Reserves and Foreshore	May-20	8		(8)	-
Strategic Procurement	May-20	21		(12)	9
Review of Insurance (coverage & value-for-money)	Nov-20		3	0	3

Review	Period	Audit Recommendations			
		Outstanding 1 July 20	New during the period	Complete	Outstanding June 2021
Review of the Management, Oversight and Monitoring of Outsourced Service Provider	May-21		3	0	3
Total		122	6	(53)	75

Risk Rating

High	8
Medium	55
Low	12
Total	75

The Committee noted that the status of progress about completion of open internal audit recommendations was satisfactory. This progress is a positive indicator that Council has good controls in place 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 2019–20, during the reporting period, and recommended that Council adopt the 2019–20 Annual Financial Report and the 2019–20 Performance Statement in principle.

The Committee considered the Closing Report and the Final Management Letter issued by the VAGO in relation to the 2019–20 external audit. The management letter contained one audit finding regarding excessive annual leave balances which management has acknowledged. Further, it confirms the satisfactory resolution of all previous audit findings. The Committee recommended that Council accept the 2019–20 External Audit Closing Report and 2019–20 Final Management Letter.

At the June 2021 ARC meeting, the Committee revised the Interim Audit Management Letter for the 2020–21 external audit. The management letter does not contain any new audit findings. However, the audit finding concerning excessive annual leave balances remains unresolved. Management has provided an updated comment for the outstanding audit finding. The Committee noted the management response to the outstanding audit finding is acceptable.

The Committee considered the draft external audit strategy submitted by VAGO for the audit of the financial statements and the performance statement for the year ending 30 June 2021 at the June 2021 meeting. There were no significant changes proposed to the strategy in comparison to the previous year.

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. The Committee made some suggestions for improvement which officers agreed to consider before the policies were submitted to Council.

- Revised Council Policy CP039: Discretionary Reserves
- Revised Council Policy CP011: Investment of Available Funds
- Revised Council Policy CP040: Borrowings
- 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

In addition, the Committee has noted all other policies Council has approved during the reporting period. In total sixteen (16) policies have been reviewed by officers during the reporting period.

5.4 Risk Management

The Committee noted that many improvements to the Risk Management Framework were underway with significant progress made, particularly relating to the assessment of the effectiveness of controls that Council relies on to mitigate risk. These improvements were mainly the result of the open internal audit recommendations completed during the year and internal audits conducted during the reporting period. The Committee shared its collective experience with management regarding the extension of the improvements proposed in the open internal audit recommendations and noted there is still work to be done regarding those recommendations. The Committee received an update briefing on the risk register of Council 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 Management Committee (a part of the Compliance 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 reports.

- Reducing bushfire risk (tabled October 2020)
- Sexual Harassment in Local Government (December 2020)
- Maintaining Local Roads (March 2021)

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

5.6 Financial Performance

The ARC had the 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 31 December 2020 and the quarterly financial report as at 31 March 2021. Further, an update on the draft budget 2021–22 was given at the June 2021 ARC meeting. The officers briefed the Committee on the measures Council continues to pursue to ensure the financial sustainability of its operations.

5.7 COVID-19

An update was provided to the Committee at the June 2021 meeting in relation to the financial impact of COVID-19. Though the Borough has successfully managed the impact whilst providing concessions to those experiencing financial hardship in the community, it was agreed that officers will continue to provide updates to the Committee on this matter due to the significant impact the pandemic could continue to have on the Borough's operations and financial sustainability.

5.8 CEO Briefing

The CEO briefed the Committee on the proposed organisational restructure, new corporate system, 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 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.
- New corporate system implementation (significant changes to key systems and consequent impact of the changes to Council's risk profile).
- Outcomes of the tender process for the awarding of a new internal audit contract.

7. Meeting Schedule for 2021

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

- 6 September 2021
- 6 December 2021

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. The Committee noted that many improvements to the Risk Management Framework were underway with significant progress made, particularly related to the assessment of the effectiveness of controls that Council relies on to mitigate risk.

This is the Committee's first report to Council under the new reporting regime. The Committee welcomes feedback as to whether this report meets Council's expectations. 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
23 August 2021

Appendix A - Annual Work Plan - Year Ending 30 June 2021

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
Financial & Performance Reporting					
1	Review changes in significant accounting policies and disclosures	47	Annually	✓	No significant changes for 2020–21 reporting period
2	Review LGPRF changes	47	Annually	✓	No changes to the reporting indicators for the 2020–21 reporting period
3	Review annual financial report and annual performance statement	49	Annually	✓	2019–20 annual financial report
4	Review outcomes of the external audit with management and the auditors	48	Biannual	✓	2019–20 final audit in Sep 20 and 2020–21 interim audit in June 21
5	Recommend adoption of annual financial report and performance report	50 / 51 / 52	Annually	✓	2019–20 report
6	Review management finance reports and performance statements	42 / 53	Triannual	✓	Quarterly financial reports
Internal Control Environment					
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	✓	Two internal audits conducted during the reporting period
Risk Management					
10	Review effectiveness of Council's risk management framework - Council policy CP017	55	Every two year	✓	Reviewed at June 2021 ARC meeting
11	Review Council's risk appetite statement - Council policy CP017	55	As Required	✓	Reviewed at June 2021 ARC meeting as a part of Council policy CP017
12	Review Council's risk profile and significant changes thereto	55	As Required	✓	Reviewed at June 2021 ARC meeting as a part of Council policy CP017
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	✓	An internal audit covering the review topic of insurance (coverage and value-for-money), conducted during the reporting period

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
Fraud Prevention Systems & Controls					
16	Review Council's fraud prevention policy and controls (Council Policy CP008 is reviewed every three year)	58	As Required	n/a	Scheduled for 2021–22 reporting period
17	Review Council's fraud control plan and awareness programme	58	As Required	n/a	
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	
Internal Audit					
20	Review Internal Audit charter	79	Every three year	✓	Reviewed at December 2020 ARC meeting
21	Review Internal Audit Plan and revise if required	69	Annually	✓	Reviewed at December 2020 ARC meeting along with the internal audit charter
22	Review status of delivery of annual internal audit plan	70	Biannual	✓	Three internal audits (including a follow-up audit) were planned for the reporting period. All are completed
23	Review scopes of proposed internal audit reviews	72 - 73	Biannual	✓	Two internal audit plans were reviewed during the reporting period
24	Review reports on internal audit reviews	75	Biannual	✓	Three internal audit reports were 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
External Audit					
29	Discuss with the external auditor the scope of the audit and the planning of the audit	66	Annually	✓	2020–21 scope of the 2020–21 external audit and the planning of the audit
30	Discuss any audit issues encountered during the course of the audit	67	Biannual	✓	2019–20 final external audit September 2020 ARC meeting, 2020–21 interim external audit June 2021 ARC meeting
31	Ensure that management responses to any audit findings are appropriate and timely	67	As Required	✓	2019–20 final external audit September 2020 ARC meeting, 2020–21 interim external audit June 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
Compliance Management					

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
35	Review Report on Gifts, Benefits and Hospitality	41	Annually	n/a	A report will be provided to ARC in September 2021 for 2020–21 financial 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
Reporting to Council					
37	Provide Minutes to Council	34	Triannual	✓	Have provided minutes of all ARC meetings
38	Report on activities to Council	35	Biannual	x	The first provided in July 2021
Performance Evaluation					
39	Adopt an annual work program	27	Annually	✓	AWP was adopted in December 2020 ARC meeting
40	Assessment of Committee performance	37	Annually	n/a	Scheduled for September 2021
Review of Charter					
41	Review of Committee Charter	84	Annually	✓	Reviewed in September 2020 ARC meeting
Other Matters					
42	Committee member induction	38	As Required	n/a	No new committee members appointed during the year
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
Meeting Schedule					
45	Set Committee meeting schedule	28	Annually	✓	In place