



## **Appendix 2**

### **11.1 Chief Executive Officer Report**

*Audit and Risk Committee Report to Council for the period  
1 January 2022 to 30 June 2022*

# **Ordinary Meeting of Council**

Wednesday 28 September 2022 at 7:00pm

Queenscliff Town Hall

# Borough of Queenscliffe

## Audit and Risk Committee

### Biannual Activity Report

September 2022

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## 1. Period of this Report

This report covers Audit and Risk Committee (ARC or Committee) activity from 1 January 2022 to 30 June 2022.

## 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:

- 4 April 2022; and
- 6 June 2022.

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 Fleur Hewitt	2	1
Cr Isabelle Tolhurst (appointed 25 May 2022)	1	1
<b>Total</b>	<b>13</b>	<b>12</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 for the full twelve months of the 2021–22 financial year 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 Rates Revenue (incl. data interrogation)** – Based on the results of the review, the internal auditors concluded that BOQ has adequate and appropriate systems, processes and controls in place covering rates revenue activities. However, they have noted a minor opportunity for improvement pertaining to enhancing document control for internal procedures. The Committee noted that management responses to the report indicated acceptance of the recommendation and that the proposed target completion date for the action was acceptable.

**Outstanding internal audit recommendations** – Management confirmed that the Council has only been able to complete two (2) outstanding internal audit recommendations during the reporting period due to staff shortages. Further, during the reporting period, seven (7) audit recommendations, previously considered complete have now been reclassified as outstanding as control measures previously implemented had not been effective.

Risk Rating	No of Audit Recommendations				
	Outstanding	New during the period	Reclassified as outstanding	Complete	Outstanding
	1-Jan-22				30-June-22
Low	11	1	5	-	17
Medium	28	-	2	(2)	28
High	7	-	-	-	7
<b>Total</b>	<b>46</b>	<b>1</b>	<b>7</b>	<b>(2)</b>	<b>52</b>

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

The Committee noted that staff shortages were having an impact on the progress that Council has been making toward completion of outstanding internal audit recommendations.

## 5.2 External Audit

Council's external auditor, Crowe Australasia (on behalf of the Victorian Auditor General's Office (VAGO)), provided the Committee with the draft audit strategy for the 2021–22 year-end audit. The Committee was briefed about the following audit focus areas for the 2021–22 year-end audit:

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

In the June meeting, the Committee considered the interim management letter that external auditors issued after completing the interim financial audit. The interim management letter did not contain any new audit findings. However, the letter included three (3) outstanding management letter points as stated below:

- Timely update of bank signatories;
- Review of reserves balances; and
- Excessive annual leave balances.

The Committee noted the updated management responses to the outstanding management letter points and that the proposed target completion dates for the actions were acceptable.

### **5.3 Internal Control Environment**

The Committee noted the plan for review of Council policies over the four years to 30 June 2026 at the June 2022 ARC meeting which will see many significant policies reviewed.

The Committee noted policies Council has approved during the reporting period. In total, three (3) policies have been reviewed by officers during the reporting period.

The Committee reviewed the gifts, benefits and hospitality register for the period 1 July 2020 to 30 June 2021 while noting and welcoming the full disclosure in the report.

The Committee was notified of one instance of potential fraud reported during the reporting period. This matter was promptly investigated by the CEO and the HR & Governance Coordinator and the investigation concluded that fraud had not occurred. Council's fraud officer was kept informed at all times of the initial report, investigation and conclusion. There has not been any other unethical behaviour, fraud and corruption reported or suspected 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 Committee reviewed the draft framework based on its shared experience and expertise.

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 risk events identified in the risk register. Committee noted the new risk item management has identified during the reporting period in relation to managing trees situated within Council's properties (including Crown land that Council manages) and identified/planned controls to manage the risk.

The Committee received an update with respect to the Local Authorities Superannuation Fund (LASF) defined benefit (DB) sub-plan. The Committee noted that until the last lump sum/lifetime pension payment is made by the LASF DB sub-plan that extinguishes its defined benefit obligations in full, there is a potential for a funding call to be made against the Borough of Queenscliffe.

Further, the ARC reviewed all the minutes of 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 the parliament. During the reporting period, the Committee was briefed on the relevance of recommendations included in the following reports:

- Council Waste Management Services;
- Results of 2020–21 Audits: Local Government; and
- Fraud Control Over Local Government Grants.

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 31 December 2021 and the quarterly financial report as of 31 March 2022.

A detailed update on the 2022–23 draft budget was provided to the Committee at its April 2022 meeting, providing an opportunity for the Committee to provide feedback before the budget was approved by Council.

The officers briefed the Committee on the measures Council continues to pursue to ensure the financial sustainability of its operations.

## **5.7 CEO Briefing**

The CEO briefed the Committee on the ICT transformation project and the impact of staff shortages on Council's operations.

Further, the CEO provided a comprehensive update about the recommendations stated in the Provisional Improvement Notice (PIN) issued by WorkSafe Victoria in relation to Victoria Park. The CEO confirmed that Council is currently working toward satisfying all those recommendations.

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**

The Committee will particularly consider the following important matters during the next reporting period:

- Review of 2021–22 annual financial report and 2021–22 annual performance statement;
- Appointment of internal audit service provider;
- Comprehensive review of Audit and Risk Committee Charter;
- Climate Emergency Response Plan (CERP) Implementation Framework.

## **7. Meeting Schedule for 2022 – 23**

The Committee's meeting schedule for the 2022–23 financial year is as follows:

5 September 2022      5 December 2022

3 April 2023          5 June 2023

## **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 which enable Council to meet its statutory responsibilities and further the strategic objectives of the Community Vision.

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 Orchard

Chair

On behalf of the Audit and Risk Committee

16 August 2022

## Appendix A – Update against the Annual Work Plan for the twelve months ending 30 June 2022

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	✓	Considered under draft external audit strategy for financial year ending 30 June 2022 (April meeting), no significant changes impacting BOQ
2	Review LGPRF changes	47	Annually	✓	Considered under draft external audit strategy for financial year ending 30 June 2022 (April meeting), no significant changes impacting BOQ
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	✓	Two internal audits conducted
<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	✓	A mock BCP/DR incident response drills/testing exercise has not been carried out by the BoQ since June 2016.  However, Business Continuity Committee reviewed the effectiveness of the business continuity plan in light of the COVID-19 global pandemic. The Committee considered that the real life situation presented an opportunity to assess the plan's performance rather than performing a mock exercise, and therefore the review was conducted in lieu of a testing exercise. An update to the ARC was presented at April 22 meeting.
<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. However, There was one instance of potential fraud reported to the HR & Governance Coordinator which was immediately reported to the fraud officer of the Council. Subsequently, this matter was promptly investigated by the CEO and the HR & Governance Coordinator and concluded that a fraud had not occurred. This conclusion was reported to the Council's fraud officer immediately after the investigation.
19	Review actions taken to report any incidents of fraudulent or corrupt behaviour	58	As Required	n/a	No 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	✓	Reviewed in June 22 meeting as a part of the Annual Work Plan - Year Ending 30 June 2023
22	Review status of delivery of annual internal audit plan	70	Biannual	✓	Two internal audits were planned for the reporting period and completed
23	Review scopes of proposed internal audit reviews	72 - 73	Biannual	✓	Scope of two internal audits reviewed and confirmed
24	Review reports on internal audit reviews	75	Biannual	✓	Two internal audit reports were reviewed and considered during the reporting period
25	Meet with internal auditor in the absence of management	81	Annually	✓	ARC met 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

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
28	Committee involvement in appointment of internal audit service provider	80	As Required	✓	The draft request for Quotation (RFQ) to initiate an open tender process to select an internal audit service provider was discussed at June meeting
<b>External Audit</b>					
29	Discuss with the external auditor the scope of the audit and the planning of the audit	66	Annually	✓	Discussed the draft external audit strategy for financial year ending 30 June 2022 (April meeting), no significant changes impacting BOQ
30	Discuss any audit issues encountered during the course of the audit	67	Biannual	✓	2021–22 interim audit update was presented to June meeting
31	Ensure that management responses to any audit findings are appropriate and timely	67	As Required	✓	2021–22 interim audit management letter was discussed to June 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
<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, April, and June ARC meetings)
35	Review Report on Gifts, Benefits and Hospitality	41	Annually	✓	A report on gifts, benefits and hospitality for the period 1 July 2020 to 30 June 2021 discussed in April meeting
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	✓	Two reports provided during the reporting period
<b>Performance Evaluation</b>					
39	Adopt an annual work program	27	Annually	✓	AWP for the FA 2022-23 was adopted in June 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	✓	Discussed in June ARC meeting
<b>Other Matters</b>					
42	Committee member induction	38	As Required	x	Cr Isabelle Tolhurst was appointed as a Council representative. However, there was not a formal induction
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

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
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	Once the CERP Implementation plan is finalised, it 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 / reclassified* 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
Records Management	May-18	1	5	3	9	-	-	-	-	-	-	-	1	5	3	9
IT Network and Security (including Cyber Security)	Oct-18	-	2	-	2	-	-	-	-	-	-	-	-	2		2
Capital Works Framework	Nov-19	-	6	3	9	-	-	-		(1)		(1)	-	5	3	8
Human Resources Management	Nov-19	-	3		3	-	-	-	-	-	-	-	1	2		3
Business Continuity Planning and Disaster Recovery	Nov-19	-	4	1	5	-	-	-	-	(1)	-	(1)	-	3	1	4
Review of the Management of Caravan Parks, Reserves and Foreshore	May -22	-	-	-	-	5*	2*	7	-	-	-	-	5	2	-	7
Strategic Procurement	May-20	2	7		9	-	-	-	-	-	-	-	2	7		9
Review of Insurance (coverage & value-for-money)	Nov-20	1	-	-	1	-	-	-	-	-	-	-	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	1	-	5	-	-	-	-	-	-	-	4	1	-	5
Review of Rates Revenue (incl. data analytics)	May -22	-	-	-	-	1	-	1	-	-	-	-	1	-	-	1
<b>Total</b>		<b>11</b>	<b>28</b>	<b>7</b>	<b>46</b>	<b>6</b>	<b>2</b>	<b>8</b>		<b>(2)</b>		<b>(2)</b>	<b>18</b>	<b>27</b>	<b>7</b>	<b>52</b>