



Appendix 2

11.1 Chief Executive Officer Report for April 2023

*Audit & Risk Committee
Biannual Activity Report April 2023*

Ordinary Meeting of Council

Wednesday 26 April 2023 at 7:00pm

Queenscliff Town Hall



Borough of Queenscliffe

Audit and Risk Committee

Biannual Activity Report

April 2023

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1. Period of this Report

This report covers activities of the Audit and Risk Committee (the ARC or the Committee) from 1 July 2022 to 31 December 2022.

2. Purpose of this Report

This report meets the Audit and Risk Committee 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 28 September 2022.

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 by Council through a resolution at an Ordinary Council meeting, and three councillors, also appointed by Council. The chair is elected from among the independent members.

Council officers (including the Chief Executive Officer and the Manager Finance and 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:

- 5 September 2022; and
- 5 December 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	1
Mr Richard Bull, Independent member	2	2
Mr Graeme Phipps, Independent member	2	2
Ms Helen Butteriss, Independent member	2	2
Cr Ross Ebbels	1	1
Cr Fleur Hewitt*	2	2
Cr Isabelle Tolhurst	2	2
Cr Michael Grout (appointed 23 Nov 2022)	1	0
Total	14	12

*As Roland 'Barney' Orchard was not in attendance for the 5 September 2022 meeting, to ensure the external committee members had quorum, Cr Fleur Hewitt nominated to abstain from voting.

4. The Committee's Annual Work Plan

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

5. Key Activities for the Reporting Period

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

5.1 Internal Audit

RSD Audit has been appointed as Council's new internal audit service provider for a three-year contract period commencing 1 October 2022.

RSD is in the process of conducting a risk assessment of Council's operations, to develop a new three-year strategic internal audit plan. The outcome of the initial risk assessment and the draft strategic internal audit plan will be presented to the Audit and Risk Committee in April 2023 for input and approval. An internal audit will be conducted in the second half of the financial year based on the new three-year strategic internal audit plan.

Outstanding internal audit recommendations –Management presented updates on the status of progress with regard to open internal audit recommendations at each ARC meeting. During the reporting period fifteen (15) open internal audit recommendations have been completed as summarised below.

Risk Rating	No of Audit Recommendations			
	Outstanding	New during the period	Complete	Outstanding
	1-Jul-22			31-Dec-22
Low	17	0	(6)	11
Medium	28	0	(8)	20
High	7	0	(1)	6
Total	52	0	(15)	37

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

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

5.2 External Audit

The Committee considered the draft financial statements and the performance statement for the financial year 2021–22, during the reporting period, and recommended that Council adopt the 2021–22 Annual Financial Report and the 2021–22 Performance Statement in principle.

The Committee considered the Closing Report and the Management Letter issued by the VAGO in relation to the 2021–22 external audit. The management letter contained two (2) management letter points and one business improvement opportunity as stated below:

- Excessive annual leave balances (outstanding management letter point from previous audits),
- Not having developed/updated an asset plan in line within the timing requirements of the Local Government Act 2020; and
- Business improvement opportunity in relation to Council's readiness for the external audit process (management partially agree).

The Committee noted 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 policies Council has approved during the reporting period. In total, twelve (12) policies have been reviewed by officers and approved by Council during the reporting period. Two (2) of those policies were first reviewed by the Committee before the Council approval.

The Committee reviewed the gifts, benefits and hospitality register for the period 1 July 2021 to 30 June 2022 while noting and welcoming the full disclosure in the report.

The Chair of the Committee was immediately informed about a formal complaint from a community organisation alleging unethical behaviour by Council's administration in making decisions with respect to the tree management work carried out at Victoria Park. This complaint was referred to an independent body in line with Council's Complaint Handling policy. Based on the feedback received from the independent body and an investigation carried out internally with the involvement of the Mayor, the Deputy Mayor, the Chair of the Committee and the Council's HR & Governance Coordinator, it was concluded that officers have acted appropriately and within their delegated authority in carrying out tree management in Victoria Park.

The Committee was notified of one instance of potential fraud reported during the reporting period. This matter was promptly investigated by the HR & Governance Coordinator and the investigation concluded that fraud had occurred, and necessary disciplinary action was taken against the officer involved in line with the Council's employee code of conduct. Council's fraud officer and CEO were 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 reviewed the Council's new risk management policy which has been developed based on the risk management framework of Council.

The Committee received briefings on Council's risk register at each ARC meeting. The Committee is satisfied with the current controls in place and the planned controls to be implemented to mitigate the risk associated with the risk events identified in the risk register.

The Committee received an update with respect to the Local Authorities Superannuation Fund (LASF) defined benefit sub-plan. The Committee noted the change in the likelihood of a shortfall in the fund from unlikely to likely due to various economic shocks that the world and Australia have been experiencing.

Further, the ARC reviewed all the minutes of the Risk and Governance Committee and commented where appropriate.

5.5 Financial Performance

The ARC has an opportunity to review in detail the financial performance reports at each meeting. The Committee was provided with updates in relation to the quarterly financial report as of 30 June 2022 and the quarterly financial report as of 30 September 2022 during the reporting period.

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

5.6 Insurance Arrangements

During the reporting period, the Committee considered the update Officers provided in relation to the insurance coverage of Council for the 2022–23 financial year. Based on the update provided, the Committee noted that there was a 10.8% increase in total insurance premiums for the 2022–23 financial year. The premium for Council’s asset protection policy has increased significantly mainly due to the increase in the insurance value of the assets covered under the policy.

5.7 CEO Briefing

The CEO briefed the Committee on the following matters during the reporting period.

- ICT transformation project, and
- Provisional Improvement Notice (PIN) issued by WorkSafe Victoria. The CEO confirmed that the Council has met the requirements of both PINs issued by WorkSafe Victoria. The PIN were issued in relation to safety risks associated with trees in Victoria Park.

The Audit and Risk Committee requested a review of Cyber Security controls of Council’s post the implementation of core systems.

It was agreed the CEO will continue to provide updates to the Committee on these matters due to the significant impact some of these initiatives have on Council’s operations and risk profile.

6. Matters for Consideration during the Next Reporting Period

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

- New three-year strategic internal audit plan, and
- Progress of the Council’s ICT transformation project.
- Appointment of external member positions via a public advertisement process.
- Role of the Audit and Risk Committee in Compliance LG Act 2020.

7. Meeting Schedule for 2022–23

The Committee’s meeting schedule for the remainder of 2022–23 financial is as follows:

- 17 April 2023
- 5 June 2023

8. Conclusion

Based on the information provided, the Audit and Risk Committee believes the Council has satisfactory systems, processes and controls in place to ensure efficient and effective operation that meets Council's statutory responsibilities under applicable legislation. The Audit and Risk Committee also holds the view that these systems provide a framework to further the strategic objectives of Council set out the Community Vision and 2021 –2025 Council Plan. 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

17 April 2023

Appendix A – Update against the Annual Work Plan for the six months ending 31 December 2022

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
Financial & Performance Reporting					
1	Review changes in significant accounting policies and disclosures	47	Annually	n/a	Will be considered in the 2 nd half of the year
2	Review LGPRF changes	47	Annually	n/a	Will be considered in the 2 nd half of the year
3	Review annual financial report and annual performance statement	49	Annually	✓	2021–22 annual financial report
4	Review outcomes of the external audit with management and the auditors	48	Biannual	✓	2021–22 final audit in Sep 22
5	Recommend adoption of annual financial report and performance report	50 / 51 / 52	Annually	✓	2021–22 report
6	Review management finance reports and performance statements	42 / 53	Quarterly	✓	Quarterly financial reports
Internal Control Environment					
7	Review key policies	62	Triannual	✓	Only policies with a risk management and/or finance & accounting focus are reviewed by the Audit and Risk Committee prior to being forwarded to Council for adoption. Two policies were reviewed during the reporting period.
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. However, the ARC is updated about the ongoing projects to make significant improvements to its ICT (new corporate system, ERDMS, Office365 etc.)
9	Ensure a program is in place to test compliance with systems and controls	59 - 65	Biannual	x	RSD Audit, Council's new internal audit service provider, is in the process of conducting a risk assessment of Council's operations, to develop a new three-year strategic internal audit plan. An internal audit review will be conducted in the 2 nd half of the year based on the new three-year strategic internal audit plan.
Risk Management					
10	Review effectiveness of Council's risk management framework	55	Every two year	n/a	BoQ's draft risk management framework was approved in Apr 22 ARC meeting
11	Review Council's risk appetite statement	55	As Required	✓	BoQ's draft risk management policy was reviewed and recommended for adoption by Council in Sep 22 ARC meeting
12	Review Council's risk profile and significant changes thereto	55	As Required	✓	BoQ's draft risk management policy was reviewed and recommended for adoption by Council in Sep 22 ARC 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	✓	2022–23 insurance arrangements

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
Risk Management- Contd.					
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. However, on 13 September 2021 the 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.
Fraud Prevention Systems & Controls					
16	Review Council's fraud prevention policy and controls (Council Policy CPoo8 is reviewed every three year)	58	As Required	n/a	Reviewed at September 2021 ARC meeting
17	Review Council's fraud control plan and awareness programme	58	As Required	n/a	Covered in the Council Policy CPoo8
18	Review reports on any instances of unethical behaviour, fraud and corruption	58	Triannual	✓	The committee was briefed about a formal complaint from a community organisation, alleging unethical behaviour by Council's administration in making decisions with respect to tree work at Victoria Park. Further the Committee was briefed on one allegation of fraud. as well as the investigation conducted and outcomes of that investigation.
19	Review actions taken to report any incidents of fraudulent or corrupt behaviour	58	As Required	✓	Committee was briefed about the investigations conducted and outcomes of investigations in relation to the two incidents mentioned above (item 18).
Internal Audit					
20	Review Internal Audit charter	79	Every three year	n/a	Reviewed at December 2020 ARC meeting; due for review Dec 2023
21	Review Internal Audit Plan and revise if required	69	Annually	n/a	Will be considered in the 2nd half of the year
22	Review status of delivery of annual internal audit plan	70	Biannual	x	One internal review will be conducted in the 2nd half of the year
23	Review scopes of proposed internal audit reviews	72 - 73	Biannual	x	One internal review will be conducted in the 2nd half of the year
24	Review reports on internal audit reviews	75	Biannual	x	One internal review will be conducted in the 2nd half of the year
25	Meet with internal auditor in the absence of management	81	Annually	n/a	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	n/a	Will consider along with the review of internal audit reports
28	Committee involvement in appointment of internal audit service provider	80	As Required	✓	The ARC recommended the appointment of RSD Audit for a three-year contract period as Council's internal audit service providers in its Sep 22 meeting.

No	Charter Requirement	Charter Ref	Frequency	Achieved	Comments
External Audit					
29	Discuss with the external auditor the scope of the audit and the planning of the audit	66	Annually	n/a	Will be considered in the 2nd half of the year
30	Discuss any audit issues encountered during the course of the audit	67	Biannual	✓	2021-22 final external audit Sep 22 and Dec 22 ARC meetings
31	Ensure that management responses to any audit findings are appropriate and timely	67	As Required	✓	2021-22 final external audit Sep 22 and Dec 22 ARC meetings
32	Meet with external auditor in absence of management	68	Annually	n/a	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	x	One internal review will be conducted in the 2nd half of the year
34	Obtain briefings on any significant compliance matters - Risk and Governance Committee	41	Triannual	✓	Minutes of the monthly Risk and Governance Committee meeting
35	Review Report on Gifts, Benefits and Hospitality	41	Annually	✓	Gift register of the 2021–22 financial year in Sep 22 ARC meeting
36	Consider reports by regulatory and integrity agencies on investigations and relevance for Council (e.g. VAGO)	83	Biannual	n/a	The Victorian Auditor-General's Office (VAGO) has not tabled a performance audit report relevant to the local government sector 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	✓	One report provided during the reporting period
Performance Evaluation					
39	Adopt an annual work program	27	Annually	n/a	Will be considered in the 2nd half of the year
40	Assessment of Committee performance	37	Annually	n/a	Will be considered in the 2nd half of the year
Review of Charter					
41	Review of Committee Charter	84	Annually	✓	Reviewed in September 2021 ARC meeting
Other Matters					
42	Committee member induction	38	As Required	x	Cr Michael Grout was appointed as a Council representative. However, there was no 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
Other Matters – Contd.					
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	Other than the matters listed in the ARC charter, no specific matters referred to ARC by Council during the reporting period
Meeting Schedule					
45	Set Committee meeting schedule	28	Annually	✓	In place

Appendix B – Outstanding Internal Audit Recommendations

Review	Period	Outstanding 1 July 2022				New during the period			Complete during the period				Outstanding 31 December 2022			
		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	-	-	-	-	(1)	-	(1)	-	1	-	1
Capital Works Framework	Nov-19	-	5	3	8	-	-	-	-	(2)	(1)	(3)	-	3	2	5
Human Resources Management	Nov-19	-	3		3	-	-	-	-	(1)	-	(1)	-	2	-	2
Business Continuity Planning and Disaster Recovery	Nov-19	-	3	1	4	-	-	-	-	(1)	-	(1)	-	2	1	3
Management of Caravan Parks, Reserves and Foreshore	May-20	5	2	-	7				(1)	(1)	-	(2)	4	1	-	5
Strategic Procurement	May-20	2	7		9	-	-	-	-	(1)	-	(1)	2	6	-	8
Insurance (coverage & value-for-money)	Nov-20	1	-	-	1	-	-	-	(1)	-	-	(1)	-	-	-	-
Management, Oversight and Monitoring of Outsourced Service Provider	May-21	3	-	-	3	-	-	-	(1)	-	-	(1)	2	-	-	2
Statutory Planning Process	Nov-21	4	1	-	5	-	-	-	(3)	(1)	-	(4)	1	-	-	1
Rates Revenue (incl. data analytics)	May -22	1	-	-	1	-	-	-	-	-	-	-	1	-	-	1
Total		17	28	7	52	-	-	-	(6)	(8)	(1)	(15)	11	20	6	37