6.2.4 Audit & Risk Commitee Biannual Report

Responsible GM: Debbie Tyson
Author: Vincent Philpott

Recommendation(s)

That Council notes the Audit and Risk Committee Biannual Report as presented by Chairperson Vincent Philpott.

Attachments

Nil

Executive Summary

This report summarises the activities carried out by the Committee in compliance with its purpose as set out in the Act:

The committee's role is to monitor, review and advise Council on the standard of its financial control, risk management and corporate governance. Specifically, the Committee must:

(a) Monitor the compliance of Council policies and procedures with—

       (i) the overarching governance principles; and

       (ii) this Act and the regulations and any Ministerial directions;

(b) Monitor Council financial and performance reporting;

(c) Monitor and provide advice on risk management and fraud prevention systems and controls;

(d) Oversee internal and external audit functions.

The committee acknowledges the ongoing willing and unfettered commitment of Council's executives and officers to the effective functioning of the Audit and Risk Committee. This commitment together with high quality secretarial support ensures the committee is able to fulfil it's purpose and to provide assurance to Council that the requirements of the Local Government Act are being met and applied.

Background

The committee comprises three independent members and two Councillor members:
- Cr Jack Kowarzik (Mayor)
- Cr Stephanie Davies
- Vince Philpott (committee chairperson)
- Leanna La Combre
- Michael Said

Meeting Attendance		
	November 17th 2023	March 15th 2024
Cr Jack Kowarzik	✓	✓
Cr Stephanie Davies	x	✓
Vince Philpott (chairperson)	✓	✓
Leanna La Combre	✓	✓
Michael Said	✓	✓

Committee Workplan

The agenda for each committee meeting is derived from its annual workplan which is composed of the committee's roles and responsibilities as set out in the Act.

Internal Audit

The internal audit function is a key element in assessing the integrity of council's framework of internal controls The following Internal Audits were performed during the reporting period in accordance with the annual audit program:

- *Review of Councillor Expenses* - this internal audit assessed the adequacy of controls and processes around the management of Councillor Expenses. Overall, the audit found that the current controls in place to manage Councillor expense reimbursement at Cardinia Shire Council can be further strengthened. No high-risk issues were identified. The main areas for improvement relate to the Councillor expense reimbursement policy and the implementation of recommendations from Local Government Inspectorate (LGI) reports 2020 and 2023.
- *Project Management* - this internal audit assessed the adequacy of processes and procedures surrounding the management of Council's responsibilities for project management of capital works including project governance framework, monitoring progress, consultation with the community, project governance meetings and actions, management reporting, milestones and budget reporting, variations and contingency payments, post implementation reviews. The audit identified a range of controls that should be implemented and/or improved to reduce the identified weaknesses and exposures. The report did not identify any high-risk issues.
- *Complaints Management* - Internal audit reviewed the adequacy of processes with respect to complaints management including processes for handling customer complaints, monitoring and tracking of responses, management reporting, liaison with the public, response times, staff training. The audit identified a range of controls that should be implemented to reduce identified weaknesses and exposures. The report did not identify any high-risk issues.

Review of key corporate policies

The 2023/2024 Audit and Risk Committee Work Plan requires a review of the adequacy and effectiveness of key policies, systems, controls, and development of a 3-year policy and strategy review program. The process for reviewing policies firstly identifies those that relate to matters essential to effective governance. The policies are then reviewed by Senior Leadership Team prior to being presented to the Audit and Risk Committee. The following key policies were reviewed and endorsed by the committee with minor modifications during the reporting period:
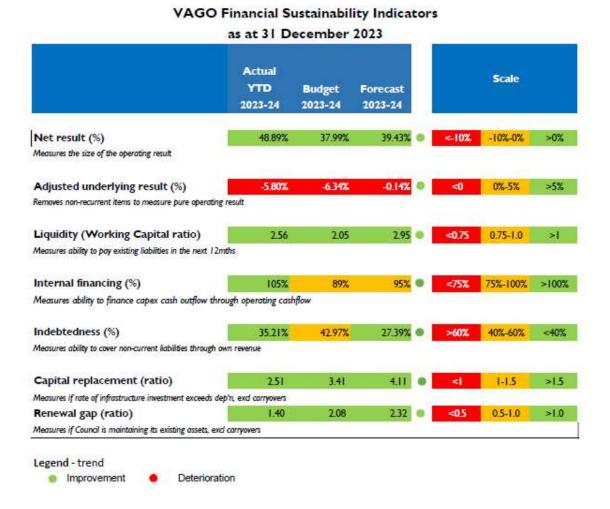- Public Transparency Policy
- Fraud and Corruption Control Policy

- CEO Purchasing Delegations
- Information Privacy Policy
- Councillor and Staff Relationships Policy
- Amendment to Councillor Expenses Policy
- AI artificial intelligence policy (new policy)

Financial reporting and oversight

The half year results to December 2023 were provided to the committee for review. Although a number of variations of actual position to budget were noted and queried, many are results of timing effects. The overall performance as measured against VAGO's sustainability indictors is considered satisfactory

VAGO Financial Sustainability Indicators as at 31 December 2023

	Actual YTD 2023-24	Budget 2023-24	Forecast 2023-24		Scale		
Net result (%) *Measures the size of the operating result*	48.89%	37.99%	39.43%	●	<-10%	-10%-0%	>0%
Adjusted underlying result (%) *Removes non-recurrent items to measure pure operating result*	-5.80%	-6.34%	-0.14%	●	<0	0%-5%	>5%
Liquidity (Working Capital ratio) *Measures ability to pay existing liabilities in the next 12mths*	2.56	2.05	2.95	●	<0.75	0.75-1.0	>1
Internal financing (%) *Measures ability to finance capex cash outflow through operating cashflow*	105%	89%	95%	●	<75%	75%-100%	>100%
Indebtedness (%) *Measures ability to cover non-current liabilities through own revenue*	35.21%	42.97%	27.39%	●	>60%	40%-60%	<40%
Capital replacement (ratio) *Measures if rate of infrastructure investment exceeds dep'n, excl carryovers*	2.51	3.41	4.11	●	<1	1-1.5	>1.5
Renewal gap (ratio) *Measures if Council is maintaining its existing assets, excl carryovers*	1.40	2.08	2.32	●	<0.5	0.5-1.0	>1.0

Legend - trend
- ● Improvement
- ● Deterioration

IT - Disaster Recovery testing

The committee received the results of the annual testing of disaster recovery processes for key applications and systems. The purpose of the testing is to validate the data integrity between production environment and the DraaS environment (Logicalis's Mitcham Data Centre) in a system loss simulation. Testing only concentrates on application and systems provided by the Information technology team to the organisation and is not a business continuity test. All systems passed with only three conditional passes, due to internet related components unable to be tested due to bubble environment.

Risk Management Reporting

Risk management reports are considered at each committee meeting. The topics covered include: Occupational Health and Safety, Workcover, Insurance and Public Liability claims, Strategic risk register and response, Extreme and High Operational risk registers and response and OHS committees meeting minutes, including Senior Leadership Team Quarterly Strategic Risk meeting.

Local Government Performance Reporting Framework

The committee was appraised of changes to the LGPRF which includes the removal of some indicators, amendments to what some indicators measure and the introduction of additional indicators. There is also now the requirement to set targets for indicators during the budgeting process. Councils will be required to set a target for the current budgeted year and the next three future years. LGPRF will also be renamed as *Local Government Model Sector Performance Report*

Critical Training Process

During the March 2023 Audit and Risk Committee meeting, an action was agreed regarding the Fraud and Corruption Policy and Plan presentation. Upon implementation of this action, it was recognised that while new staff receive training on critical policies upon commencing at Cardinia Shire Council, there was a gap in ensuring ongoing awareness among existing staff. In order to ensure all staff are adequately trained on critical policies, every 2 years, on each employee's work anniversary, staff will be required to undergo a refresher on critical policies within a four-week timeframe. Managers will receive reports on completion of training by their staff and will be responsible for ensuring compliance among their team members. At the September Audit and Risk Committee meeting, the CEO Report will include statistics confirming attendance in training programs.

Policy Implications

There are no policy implications as part of this report.

Relevance to Council Plan

5.1 We practise responsible leadership.

5.1.2 Manage our finances responsibly and leave a positive legacy for future generations.

Climate Emergency Consideration

There are no climate emergency considerations as part of this report.

Consultation/Communication

The contents of this report were presented in person by the committee chair on the April 22nd Councillor Briefing session.

Financial and Resource Implications

There are no financial or resourcing implications as part of this report.

Conclusion

It is respectfully requested that Council note the May 2024 Audit and Risk Committee Biannual report as prepared by Chairperson, Vincent Philpott.