

7.2.3 Audit & Risk Committee Biannual Report

Responsible GM: Debbie Tyson
Author: Vince Philpott – Chairperson Audit & Risk Committee

Recommendation(s)

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

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.*

These responsibilities are mapped to the committee's workplan and distributed evenly across the committee's annual calendar of meetings. At each meeting the committee verifies that each agenda includes all the items scheduled for that meeting and that any carry over items be addressed before the start of the next calendar period.

The committee's 2024-2025 workplan was endorsed at the committee's June meeting.

The committee again acknowledges the timely and high-quality support of Council's executives and officers which ensures the effective functioning of the Audit and Risk Committee. In fulfilling its purpose, the committee is in a position to provide Council with assurance that the overarching governance requirements of the Local Government Act are being met and applied.

In this report to Council, the committee wishes to acknowledge the excellent work of the finance team in particular for the quality and clarity of the annual Financial Report and Performance Statement for the year ended 30 June 2024 (*see External Audit comments below*). VAGO also to be applauded for the collaborative nature of the external audit process.

Background

The committee comprises of 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		
	June 14 th 2024	August 23 rd 2024
Cr Jack Kowarzik (apology for August meeting)	✓	☐
Alternate for August meeting Cr Kaye Cameron		✓
Cr Stephanie Davies	<i>Noted that Cr Davies left the meeting at 10:28am</i>	<i>Noted that Cr Davies left the meeting at 9:30am and returned at 10:21am</i>
Vince Philpott (chairperson)	✓	✓
Leanna La Combte	✓	✓
Michael Said	✓	✓

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:

- Asset Management – Infrastructure
- Cyber Security – Essential 8
- Gender Equity Action Plan
- Leases & Licences – Property Portfolio Management

Asset Management – Infrastructure

The objectives of this internal audit were to assess the adequacy of internal controls and processes in place to manage the following key stages of the infrastructure asset lifecycle.

- Planning (asset management strategy, business case, risk management, cost benefit analysis, accounting treatment and non-asset alternatives).
- Acquisition (acquisition process, risk evaluation and procurement method).
- Operation and Maintenance (Monitoring, maintenance, information management, asset valuation, utilisation and functionality).
- Disposal (Retirement, replacement, renewal and redeployment).

The internal audit identified a range of control improvements to reduce identified medium rated weaknesses and exposures in: Infrastructure asset management policy framework; Asset management governance; Reporting framework and Data integrity.

The report did not identify any high-risk issues.

Cyber Security – Essential 8

Council sought an Essential Eight assessment to gain insight into its cybersecurity framework's strengths and vulnerabilities. The objectives were to assess CSC's maturity against the Australian Signals Directorates 'Essential Eight' cyber security mitigation strategies.

The audit found that although CSC has established controls that cover most of the Essential Eight components, the controls are not fully aligned to ASD's Essential Eight requirements.

Modifications to those controls were recommended that will enable CSC to progress towards the target Maturity Level 2.

No unmitigated security vulnerabilities were identified.

Gender Equity Action Plan

The purpose of this audit was to assess CSC's plan for achieving mandatory compliance with the Gender Equity Act 2020 and progress against the Gender Equity Action Plan (GEAP). The internal audit assessed the adequacy of:

- Overall governance framework (policy/procedures/guidelines)
- Adequacy of completeness of Gender Impact Assessments
- Progress against the GEAP action plan and implementation plan
- Management reporting
- Staff training and awareness

The auditors confirmed that Cardinia is meeting its obligations under the Gender Equity Act and concluded that the current processes and practices to facilitate compliance with the Gender Equity Act 2020 and progress against the Gender Equity Action Plan (GEAP) are adequate. However, they found there are opportunities to further strengthen the governance framework.

Leases and Licenses (Property Portfolio Management)

This audit reviewed the adequacy of management processes for the leasing and/or licensing of Council owned properties to third parties for commercial and community use.

The internal audit did not cover regulatory services e.g., liquor licenses, licenses related to essential safety measures and sporting club seasonal licences

The audit found that the current controls in place over the management of Council properties leased and or licensed to third parties can be further strengthened.

There was one high-risk finding relating to the processes in place to manage and monitor the invoicing and debt collection function.

Strategic Internal Audit Plan - July 2024 to June 2027

The committee chair, senior officers and Internal Audit service provider Crowe, developed an internal audit plan for 2024/25 and a rolling three-year audit universe out to 2026/27. The plan was developed in consideration of strategic risks, general assurance activities and audit coverage back to 2017. The following audit topics are proposed for 2024-2025:

- Playground Maintenance
- Procurement – credit & fuel cards and panel contractors
- Strategic Planning Governance – Decision Making focus (with reference to Casey IBAC investigation)
- Business Continuity Planning (BCP) with IT Disaster Recovery ((IT-DRP)

External Audit

The external audit was completed within the planned timing. Draft accounts and performance statement together with VAGO's closing report were presented to the Committee's August meeting for consideration. The Audit & Risk Committee sought clarification of a number of items in the reports which were addressed to the committee's satisfaction enabling the committee to recommend that Council give 'in principle' approval, noting any minor amendments that may be recommended by VAGO.

VAGO Closing Report

Based on their audit, and subject to internal VAGO review, the VAGO agent expects to conclude that the financial report is presented fairly. They also expect to conclude that the performance statement is presented fairly. VAGO expect to issue an unmodified audit opinion. They will conclude and issue their audit opinion once the audit process is finalised. Outstanding audit matters include:

- a final review of the financial report and performance statement
- a review of the signed management representation letter
- completion of the review of subsequent events

Internal Controls - Review of key corporate policies

The Audit and Risk Committee Work Plan requires a review of the adequacy and effectiveness of key policies, over a rolling 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 SLT prior to being presented to the Audit and Risk Committee. Since my last biannual report to Council the following key policy was reviewed and endorsed by the committee:

- Chief Executive Officer Employment and Remuneration Policy

Risk Management

The committee reviewed the following reports:

- Operational risk report – High & Extreme risks
- Strategic Risk report
- OHS report to SLT
- Claims report
- SLT Operational & Strategic risk meeting minutes

The committee's internal audit service provider, Crowe, provided the following risk discussion papers for review:

Internal Fraud

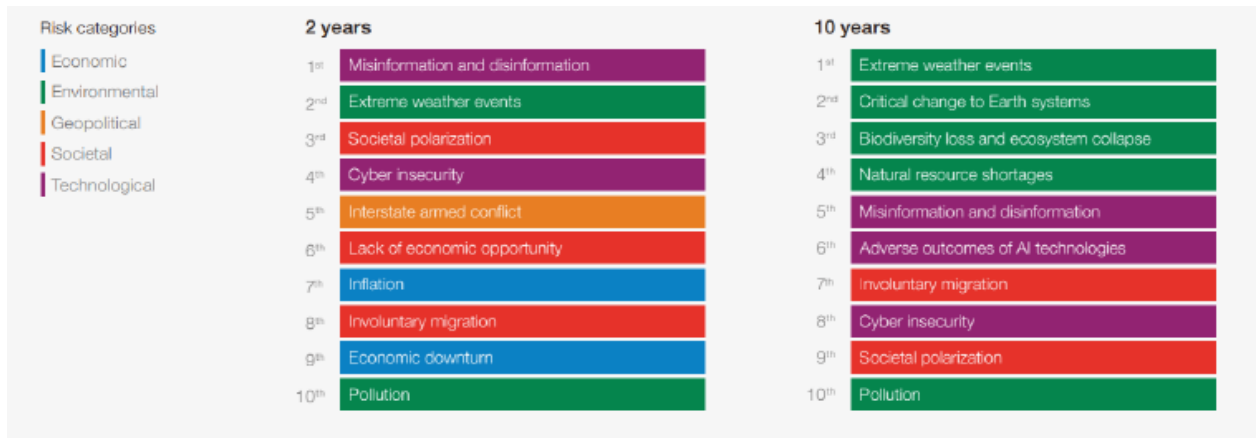
The Association of Certified Fraud Examiners (ACFE) conducts a global biennial survey into the factors of occupational fraud. Occupational fraud represents a significant risk to the operation of every organisation. The report provides insight into the categories of occupational fraud, how fraud is detected, anti-fraud controls and behavioural red flags. There is much of interest in the report however the section on how frauds were detected is illuminating and highlights the importance of having safe reporting mechanisms as this is the predominant way in which frauds are detected. The speed in which a fraud is detected and the way it is detected can determine the magnitude of the fraud. According to the survey, the most common ways fraud is detected include:

- Tip (43% of cases)
- Internal audit (14%)
- Management review (13%)
- Document examination (6%)
- By accident/account reconciliation (5%)
- Data analytics /external audit (4%)

Global Risk Report 2024

The 'Global Risks Report 2024 published by the World Economic Forum (WEF) presents the results of the Global Risk Perception Survey. The WEF analyses key risk data emanating from current economic, societal, environmental, and technological tensions and summarises key findings. The report provides Boards and Audit and Risk Committees with Global Risk Insights and is a vehicle to discuss with management the relationship and relevance of global risks

within the organisations they represent. This report was taken into consideration by CSC when developing it’s risk-based Strategic Internal Audit plan 2024-2027



Conclusion

Council is requested to note the September 2024 Audit and Risk Committee Biannual report as prepared by Chairperson, Vincent Philpott.

Attachments

Not applicable