

Management report to Council

Agenda item 6.3

Audit and Risk Committee 2020-21 Annual Activity Report

Council

Presenter: Michael Tonta, Director Governance

26 October 2021

Purpose and background

1. The purpose of this report is to present to Council the Audit and Risk Committee 2020-21 Annual Activity Report.
2. The Audit and Risk Committee (ARC) Annual Activity report is a requirement under section 54(5) of the *Local Government Act 2020* (the Act) and under the Audit and Risk Committee Charter (the Charter).

Key issues

3. The report contains three reporting elements as required under the Act and the Charter:
 - 3.1. Committee's biannual Audit and Risk Activities Report.
 - 3.2. Annual assessment of the Committee's performance against the Charter.
 - 3.3. Annual Audit and Risk Committee Performance Report.
4. Publishing the Annual Activity report on Council's website ensures that there is information available to the Council and community around the important governance functions undertaken by the ARC, and is consistent with Council's good governance arrangements and Public Transparency Policy.

Recommendation from management

5. That Council notes the Audit and Risk Committee 2020-21 Annual Activity Report and its subsequent publication on Council's website

Attachments:

1. Supporting Attachment (Page 2 of 13)
2. Audit and Risk Committee 2020-21 Annual Activity Report (Page 3 of 13)

Supporting Attachment

Legal

1. No direct legal issues arise from the recommendation from management.
2. The ARC is an advisory committee of Council established in accordance with section 53 of the Act.

Finance

3. There are no direct financial implications to Council in the recommendation of this report.

Conflict of interest

4. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a material or general conflict of interest in relation to the matter of the report.

Health and Safety

5. In developing this proposal, no Health and Safety issues or opportunities have been identified.

Stakeholder consultation

6. External stakeholder consultation has not been undertaken. As specified in the Charter, ARC meetings are closed to members of the public.

Relation to Council policy

7. Consistent with the requirements of the Act and the Charter, the establishment and maintenance of an Audit and Risk Committee will assist in the delivery of quality services that are responsive to business and community expectations, consistent with contemporary best practice, demonstrably cost effective and subject to public accountability.

Environmental sustainability

8. Environmental sustainability issues or opportunities are considered not relevant to this proposal as it does not impact on the consumption/generation of water, waste, energy and/or greenhouse gases.



City of Melbourne Audit and Risk Committee

2020/21 Annual Activity Report

1. Introduction

The City of Melbourne (the City) has established an Audit and Risk Committee (the Committee) pursuant to section 53 of the *Local Government Act 2020*. The Council has approved a Charter setting out the Committee's role and responsibilities. The Committee is required to annually report to Council on its activities pursuant to the Charter. This report covers the Committee's activities for the year ended 30 June 2021.

The Audit & Risk Committee (the Committee) is an independent committee of Council. Its purpose is to support and advise Council in fulfilling its responsibilities related to external financial and performance reporting, maintenance of strong and effective governance and control frameworks, management of key risks and Council's compliance with legislation and regulation. The Committee has a prime responsibility in overseeing and monitoring Council's various audit processes.

In the past year the new *Local Government Act 2020* (LGA) has been introduced. The new LGA has imposed additional requirements on the Committee for reporting on its activities to Council. Section 54 of the LGA requires that the Committee report biannually to Council. Accordingly, this report is the second report by the Committee on its activities for the year, the mid-year report having been provided to Council in April 2021. As this report has the dual purposes of meeting the Committee's biannual reporting requirements and providing a complete view of its work over the past year, matters raised in the earlier biannual report to Council may appear in this report for completeness.

2. Independence

An independent Audit & Risk Committee is a fundamental component of a strong corporate governance culture. Council's Committee is independent of management and is not involved in any operational decisions. Committee members do not have any executive powers, management functions or delegated financial responsibilities.

3. Reporting Period

This report covers the activities of the Committee for the fifteen months ended 30 September 2021, during which time the Committee met on seven occasions as per its Annual Work Plan. The Committee's previous Annual Activities Report was for the year ended 30 June 2020. As a result of the change of the reporting period from June to September, two scheduled meetings were held in the three months from 1 July to 30 September 2020 that are included in this report. The Committee has five scheduled meetings in its annual meeting cycle.

4. Committee Charter

The new LGA which was assented to on 24 March 2020, contained new requirements for Audit and Risk Committees. The Committee worked with senior officers to identify changes required to the Committee's Charter so that they could be submitted to Council for approval prior to 1 September 2020, this being the date by which the revised Charter needed to be operative. Revisions to the Charter were last considered and endorsed at the May 2020 meeting of the Committee. These revisions were approved by Council in August 2020 in readiness for the introduction of the new LGA in September 2020.

The next scheduled review of the Charter is November 2021 as per the Committee's annual work plan

5. Committee Membership

Committee membership is comprised of five people appointed by Council, with two members being Councillors and three members being independent of Council. The independent members are required to have appropriate skill sets and experience as mandated in section 53 of the LGA. The LGA also requires that there must be a

majority of independent members and that an independent member must be chairperson of the Committee. All members have full voting rights.

The membership of the Committee during the reporting period is set out below:

Attendee	Role	Current Tenure	
		Start Date	End Date
Geoff Harry	Chair and Independent Member	1 July 2021	30 June 2025
Therese Ryan	Independent Member	1 July 2019	30 June 2022
Stuart Hall	Independent Member	1 July 2019	30 June 2023
Cr Philip Le Liu	Councillor Member	November 2016	Current
Cr Jamal Hakim	Councillor Member	15 December 2020	Current
DLM Arron Wood	Councillor Member	November 2016	October 2020

6. Meetings and Attendance

A total of seven meetings were held during the reporting period, which for this report is a fifteen month period as explained above. There were five regular quarterly meetings in August and December 2020 and in February, May and August 2021 plus special meetings in September 2020 and 2021 to consider the Annual Financial Reports and the Annual Performance Statements for the years ended 30 June 2020 and 2021. A summary of meeting dates and attendance is shown in the table below.

Most of the meetings in the reporting period were conducted electronically because of the COVID-19 pandemic restrictions. Meeting attendance was excellent with Committee members maintaining good attendance for the entire year.

Senior management representatives also attended each Committee meeting. These included the Chief Executive Officer, Chief Financial Officer, General Manager Governance and Organisational Development, Director Governance, Coordinator Risk Management and the Audit and Compliance Specialist. Other senior members of Council's management team attended meetings on an 'as needs' basis depending on the Committee's agendas. Senior representatives of the two subsidiary companies, including the Chairs of their Audit and Risk Committees, also attended Committee meetings twice in the period.

Committee members have engaged fully in the meeting agendas and have challenged reports where appropriate. Meetings were busy and the Committee was continually challenged to complete agendas in the allotted times. The new LGA added to the Committee's responsibilities and the agendas have grown accordingly.

The Committee has enjoyed excellent working relationships with all parties with whom it has interacted and has been appreciative of the significant resource commitment required at officer level to ensure that the Committee has remained effective and value adding to Council.

Table 1 – Member Attendance

Attendee	Role	Quarterly Meetings					Special Meetings	
		7 Aug 2020	4 Dec 2020	12 Feb 2021	7 May 2021	6 Aug 2021	27 Aug 2020	3 Sept 2021
Geoff Harry	Chair and Independent Member	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Therese Ryan	Independent Member	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Stuart Hall	Independent Member	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Deputy Lord Mayor Arron Wood	Councillor Member	Attended	Not a Councillor	Not a Councillor	Not a Councillor	Not a Councillor	Attended	Not a Councillor
Cr Philip Le Liu	Councillor Member	Attended	Attended	Attended	Attended	Attended	Attended	Attended
Cr Jamal Hakim	Councillor Member	Not a Councillor	Attended	Attended	Attended	Attended	Not a Councillor	Attended

7. Annual Work Plan

The Committee's activities have remained focussed on discharging its responsibilities set out in its Charter as approved by Council from time to time. To ensure that the Committee completes its work, an Annual Work Plan setting out its programme of work, including frequency and timing of each element of the plan is prepared. The Annual Work Plan is a key document for the Committee in directing its work. The Committee recently approved a new work plan for 2021/22.

The Committee will revise the new work plan as the year unfolds to ensure that it remains relevant and will enable the Committee to fully discharge its responsibilities to Council. The new LGA now mandates that the Committee must prepare an annual work plan.

The agendas for the meetings in the reporting period have been driven by the Committee's Annual Work Plan (AWP) and all meetings have been fulsome. As with other such Committee's in the local government sector in Victoria, the new LGA has added to the Committee's workload and in the broader governance sense, expectations of stakeholders about the work of Audit Committees have never been higher.

The work of the Committee is summarised below in each of its key areas of responsibility.

Risk management

The Committee continued to monitor Council's risk management performance and the effectiveness of the risk management framework. The reporting period has been particularly busy for the risk management team resulting from the scheduled internal audit review of the risk management framework, replacement of the outdated risk management system and the rationalization of Council's strategic risk register. All of these projects are critical to the future effectiveness of Council's risk management function.

Excellent progress was achieved with the implementation of recommended improvements arising from the internal audit review of the risk management framework. Whilst the Committee was pleased to see that these improvements are on track with target timeframes and have resulted in a stronger focus on risk mitigation activity, there is still much work to be done. At the date of this report the strategic risk rationalization project is underway, having commenced in the latter part of the reporting period, but it is in the early stages and so much work is still to be done in the next year. A critical element of this project will be realignment of Council's strategic

risks with the new Council Plan. The Committee believes this project has the potential to simplify risk management processes and provide better reports on risk management activity.

The Committee has observed that the risk management system currently in use limits Council's ability to provide better line of sight on risk management performance and whilst in the early stages, the risk management system replacement is a project that the Committee strongly supports.

In addition to monitoring the effectiveness of Council's risk management systems and strategic risk mitigation performance, the Committee has regularly received reports on a range of specific risk areas, again to monitor Council's performance in regard to exposures. These areas include the following matters:

- Emerging risks for Council
- Responding to the business continuity challenges resulting from the CV-19 pandemic
- City recovery and reactivation post CV-19
- Safety and wellbeing for employees
- QVM Precinct Redevelopment
- Cyber security
- Procurement
- Management of combustible cladding across the municipality
- Management of emergencies
- Legal matters, including claims against Council by third parties
- Insurance programme renewal and claims management
- Fraud and corruption
- The implications for Council of investigations undertaken by Victorian integrity agencies across the entire public sector.

The Committee monitored Council's response to the Ombudsman Victoria report on an investigation of Council's management of its parking infringement penalties system released in November 2020 and was pleased to note that improvements identified in the report were accepted and implemented on a timely basis. The Ombudsman Victoria report on an investigation of how Councils in Victoria respond to ratepayers in financial hardship was released recently and is a current work in progress for Council, although the observations in the report indicated that Council has a well-regarded programme in place on this matter.

Internal audit

A key responsibility of the Committee is to monitor Council's internal audit programme. The programme is outsourced to an appropriately skilled service provider whose work is monitored by the Committee. A rolling three-year strategic internal audit plan is developed by the service provider to ensure that systems and controls in the areas of higher risk are regularly reviewed. The Committee reviews the plan annually and monitors delivery of the plan at every Committee meeting.

NTT continued to provide internal audit services to Council and the subsidiary companies throughout the year in accordance with its contracts with all three entities. The internal audit contract concluded on 30 June 2021, and NTT delivered their last reports to the Committee in August 2021. Accordingly, Council in conjunction with its subsidiary companies conducted a market tender process that concluded in May 2021 and resulted in the appointment of PricewaterhouseCoopers being appointed as the internal audit service provider for a three year period commencing in June 2021.

The Committee continued to review Terms of Reference for each audit prior to commencement of work to ensure alignment of internal audit activity with the risk profile of Council and the requirements of the Committee. The internal audit reports provided at the conclusion of each review contain audit findings and recommendations for control improvements, together with management responses, and are presented to the Committee for review at each meeting. The Committee monitors implementation of the recommendations by the agreed due dates.

Following the change in service provider in June 2021 a full review of the Plan was undertaken by the new service provider and the resultant plan for 2021 – 2024 was endorsed by the Committee at the August 2021 meeting for approval by Council.

Twelve internal audit reports were presented to the Committee during the reporting period in comparison to eight reviews in the previous year. These are listed below showing overall review ratings.

Review Area	ARC Meeting	Overall Rating
Southbank Boulevard Project – management initiated special review to provide independent feedback on improvements to project management systems following significant cost overruns on Stage One of this project	Aug 2020	Requiring Improvement
Risk Management	Aug 2020	Requiring Improvement
Controls Assurance	Aug 2020	Requiring Improvement
Follow Up of Internal Audit Recommendations	Dec 2020	Effective
Purchasing & Tendering	Dec 2020	Requiring Improvement
Cyber Security	Dec 2020	Requiring Improvement
Volunteer Management	Feb 2021	Requiring Improvement
Approvals to Undertake Works in the Public Realm	May 2021	Requiring Improvement
Fraud & Corruption Control Framework	May 2021	Satisfactory
Payment Card Industry Data Security Standard	May 2021	Satisfactory
Building Legislative Compliance	Aug 2021	Requiring Improvement
Staff Health & Wellbeing	Aug 2021	Requiring Improvement

The current status of implementation of recommendations is summarised in the table below, showing that actions are on track for completion within acceptable timeframes. Whilst these findings did highlight concerns with some controls and processes, the Committee did not believe that these findings were an indicator of a broader breakdown in the control environment.

Council's management team initiated an internal audit review of the outcomes of Stage One of the Southbank Boulevard Project following significant cost overruns in excess of \$8 million. With stages 2 – 5 of the Project still to be completed at the time, it was a sensible decision to use Stage One as an opportunity to identify key learnings bearing in mind that significant expenditure was still to be incurred for the later stages. It should also be noted that at the time the internal audit review of Stage One was initiated, Council's management team had already implemented significant improvements to its major project management framework following the challenges with Stage One and was seeking feedback from internal audit as to the adequacy of those improvements as well as any further improvements that should be considered. The internal audit review did identify additional improvements, and these were accepted by management and have been implemented.

A summary of the status of implementation of recommendations was presented to the Committee at each meeting to enable it to monitor progress. The table below summarises the status of actions for the year. None of the open recommendations were overdue for completion. This reflects the ongoing commitment of Council to address audit recommendations in a timely and responsible manner.

	Total
Open Actions at 1 July 2020	29
Add New Actions Reported during the reporting period	43
Less Actions completed during the reporting period	47
Open Actions at 30 September 2021	25

Financial and performance reporting

As this report covers a fifteen-month period, it includes information about two financial years. The Committee discharged its responsibilities in relation to the consolidated annual financial report and the annual performance statement of Council as described below.

Year Ended 30 June 2020

On 27 August 2020 a special meeting of the Committee was held to consider and endorse the annual financial report of Council and its subsidiaries and the annual performance statement of Council for the year ended 30 June 2020. The Committee holds this special meeting each year to accommodate the timing requirements that allow Council to approve the annual financial report and the annual performance statement within the legislative timing requirements.

The Committee reviewed the annual financial reports and the annual performance report of Council, received officer presentations and representations, reviewed the outcomes of the external audit and discussed the reports with representatives of the Audit and Risk Committees of the subsidiary companies.

The Committee was advised that the completion of the external audit of Citywide Service Solutions Pty Limited had been delayed, and while substantially complete, there were elements of audit work still to be completed. A key element of the incomplete audit work was the review of the disclosures in the annual financial report. VAGO provided written advice to the meeting that the “audit of Citywide trial balance as at 30 June 2020 is substantially complete and no material changes to Citywide numbers is expected that will impact the audit opinion on City of Melbourne consolidated group financial report.” In addition, VAGO advised that “From a standalone Citywide financial report perspective, based on the audit work done on the trial balance completed till date, I am not aware of any matters that will result in a qualified opinion for Citywide...”

Based on the information provided by Council officers, officer responses to members review of the reports and the written assurances provided by VAGO, the Committee was asked to endorse the consolidated annual financial report of Council even though the external audit of Citywide Service Solutions Pty Limited was not completed. On the basis of the assurances provided, the Committee endorsed the consolidated annual financial report and the annual performance statement of Council and recommended that Council sign these reports ‘in principle’ as required by the LGA.

The Committee noted the unusual circumstances regarding the endorsement of these reports and advised that similar circumstances must be avoided in regard to endorsement of future annual financial reports and annual performance statements.

Year Ended 30 June 2021

On 3 September 2021 a special meeting of the Committee was held to consider the annual financial report of Council and its subsidiaries and the annual performance statement of Council for the year ended 30 June 2021.

After Committee members reviewed the annual financial reports and performance reports, received officer presentations and representations, reviewed the outcomes of the external audits and discussed the reports with representatives of the Audit and Risk Committees of the subsidiary companies, the Committee endorsed the annual financial report and the annual performance statement of Council and recommended that Council sign these reports 'in principle' as required by the LGA.

External audit

The Victorian Auditor General's Office (VAGO) continued to take direct responsibility for delivery of the external audit of Council and its subsidiary companies.

The external audit plan for the year ended 30 June 2021 was presented and approved at the February 2021 Committee meeting. The Committee asked VAGO to revise the Plan to reflect the important linkages between Council and its subsidiary companies in the preparation of Council's consolidated annual financial report. This request arose from the fact that for 2019/20, the audit of Citywide Services Pty Ltd was not completed until after Council was required to approve the consolidated annual financial report as noted above. The Committee was of the view that such occurrences must be avoided at all costs.

The conclusion of the external audit for 2020/21 was completed successfully, with confirming audit opinions provided by VAGO on both subsidiary companies before Council was required to approve the consolidated annual financial report.

There were no matters of significance reported in the VAGO Closing Report and matters raised in the management letters issued during and after conclusion of the audit have been accepted by management and are being progressed. The Committee continues to monitor the status of these actions.

Internal control environment

The Committee's annual work plan for the first time included a new action to monitor delivery of Council's plan for review of key internal control elements. This action was added after it was agreed that the Committee should strengthen its oversight role in regard to Council's internal control environment. The review of key internal control elements by officers is a four-year rolling plan that is based on identification of key elements of the internal control environment. The Committee's oversight role with regard to this plan also assists it to monitor alignment of Council's policies and procedures with the overarching governance principles as mandated in the new LGA.

Policies reviewed or created in the reporting period include the following:

- Councillor Code of Conduct and related policies – these include the Councillor Occupational Health & Safety Policy 2020, Councillor Respectful Conduct Policy 2020, Councillor Fitness to Carry Out Duties Policy 2020 and Councillor Protocol 2020
- Investment and Strategic Income Policy
- Conflicts of Interest Policy
- Councillor Gift Policy
- Hospitality Policy
- Delegations Policy
- Procurement Policy

In addition to monitoring the review of these policies, the Committee also reviewed improvements to access controls for Rates and Valuations systems following an internal audit finding in the previous year that access controls could be strengthened.

The Committee's overall assessment is that Council has continued to maintain a strong internal control environment despite many challenges, both known and emerging, and is aware of the need to respond to new and emerging influences that may impact the effectiveness of controls.

Compliance management

The Committee received regular reports on compliance performance across the business, with a focus on legislative compliance. These reports are based on quarterly surveys of senior officers of Council. It was pleasing to note that in the reporting period there were no significant compliance events reported to the Committee.

In addition to these activities, the Committee also reviewed reimbursements of expenses to Councillors and Delegated Committee members as specifically required in the new LGA.

Subsidiary companies

The Committee received regular reports from the subsidiary companies' Audit and Risk Committees related to audit activity and outcomes and changes in risk profile. The Committee also oversaw, at a high level, fulfilment of annual financial reporting obligations of all Council controlled entities as reported above.

8. Committee Performance Assessment

The last assessment of the Committee's performance was completed in June 2020 and the outcomes of that assessment were reported to Council in the Committee's Report on Activities in July 2020. The Committee's work plan includes a performance assessment annually and the next one is scheduled for November 2021. This timing was considered appropriate because of the Council elections in October 2020 and the desire to allow new Councillor members of the Committee sufficient time to become familiar with the Committee's activities. The outcomes of next performance assessment will be reported to Council in the Committee's next activity report due in March 2022.

9. Conclusion

I would like to thank Councillors, fellow Committee members, Council officers and Council's assurance service providers for their contributions and support to the work of the Committee during the reporting period. In addition, the Audit & Risk Committees and senior officers of the subsidiary companies have also continued to respect the work of the Committee and have provided excellent support to it.

The Committee's workload in this period has been challenging with a new Councillor team in place following the elections in October 2020, a new Local Government Act introduced, changes in key assurance service providers and significant changes in the Governance team servicing and interacting with the Committee. The impact of the CV-19 pandemic on the operations of Council and its subsidiaries cannot be underestimated and the work of the Committee has been impacted by this also. All of these factors have ensured that the Committee's contextual environment has been dynamic and its workload challenging. I have appreciated the willingness of all members to engage fully in the Committee's work and make time outside meetings to deal with Committee business as required.

Yours sincerely
Geoff Harry
Chair
On Behalf of the Audit and Risk Committee

October 2021