

## Management report to Council

Agenda item 6.3

### Referred Documents from the 4 December 2020 Audit and Risk Committee meeting

Council

**Presenter:** Keith Williamson, General Manager Governance and Organisational Development

**23 February 2021**

#### Purpose and background

1. The purpose of this report is to advise Council of the outcomes of the City of Melbourne Audit and Risk Committee (ARC) meeting held on 4 December 2020.
2. Forwarding the minutes from the ARC to Council is a requirement under its Council adopted Charter.

#### Key issues

3. The ARC noted that the following matter would be presented to Council:
  - 3.1. The unconfirmed minutes of the 4 December 2020 ARC meeting (refer Attachment 2).

#### Recommendation from management

4. That Council notes the minutes of the meeting of the Audit and Risk Committee held on 4 December 2020.

#### Attachments:

1. Supporting Attachment (Page 2 of 9)
2. Unconfirmed minutes of the meeting of the Audit and Risk Committee held on 4 December 2020 (Page 3 of 9)

## Supporting Attachment

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### 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 *Local Government Act 2020* (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 ARC 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.

# UNCONFIRMED MINUTES

## MINUTES OF THE MEETING OF THE CITY OF MELBOURNE AUDIT AND RISK COMMITTEE 4 DECEMBER 2020 at 9.30 am

The meeting was held remotely online via Zoom technology

### PRESENT

#### Members

Geoff Harry (Chair)	Independent Member
Therese Ryan	Independent Member
Stuart Hall	Independent Member
Cr Philip Le Liu	Councillor Member

#### City of Melbourne

Justin Hanney	Chief Executive Officer
Keith Williamson	General Manager Governance and Organisational Development
Michael Tonta	Director Governance
Michael Tenace	Chief Financial Officer
Liam Routledge	Director Finance and Investment
Dale Ashley	Coordinator Risk Management
Cecilia Digenis	Internal Audit Officer
Angela Meinke	Director People, Culture and Leadership
Linda Weatherson	General Manager Community and City Services
Ravin Balendran	Director Procurement and Contract Management
Dennis Quinn	Procurement Governance and Operations Manager
Michelle Fitzgerald	Director Technology and Digital Innovation
Jeff Anthony	ICT Manager

#### NTT - Internal Audit

David Fraser	Partner
Usha Devarajah	Lead Security Consultant
Elena Xia	Senior Manager - Audit and Assurance

#### Observers

Cr Jamal Hakim	Councillor
Cr Davydd Griffiths	Councillor
Jared Lingard	Risk Management Officer

### APOLOGIES

#### VAGO

Sanchu Chummar	Acting Sector Director, Local Government
Jung Yau	Manager Financial Audit

# UNCONFIRMED MINUTES

## 1. Commencement of meeting

The meeting commenced at 9.32am.

## 2. Apologies

The Acting Sector Director, Local Government and the Manager Financial Audit, VAGO sent their apologies.

The Chair, Geoff Harry welcomed Cr Jamal Hakim, Cr Davydd Griffiths and Michael Tonta, Director Governance to their first City of Melbourne Audit and Risk Committee meeting and also welcomed back Cr Philip Le Liu.

## 3. Declarations of conflicts of interest

There were no declarations of conflicts of interest.

The Chairperson informed the Committee that he had joined the Knox City Council Audit and Risk Committee as a member. Independent member Therese Ryan stated that her role on the WA Super Audit Committee had now finished.

During this agenda item the new Personal Interests Returns process was discussed. The Director Governance informed the Committee that Council was planning a risk based approach to comply with the new process for the March 2021 returns period and beyond and confirmed that an update would be provided at the February 2021 Committee meeting.

## 4. Annual Work Plan

The Annual Work Plan was noted with the Chairperson stating that the Work Plan was now reported as a separate item. In relation to the new *Local Government Act 2020* it was stated that the Work Plan would be further reviewed by the Chair in conjunction with the Director Governance, with the outcomes reported to the February 2021 meeting.

In addition, Independent members requested an annual presentation be provided by the Chief Legal Counsel to the Committee and management agreed to this request and to update the Work Plan to reflect this going forward.

## 5. Minutes and matters arising

### 5.1 Confirmation of minutes of the special meeting held on 27 August 2020

The minutes of the meeting held on 27 August 2020 were confirmed with no amendments.

### 5.2 Status of matters arising as at 4 December 2020 summary report

The Committee noted the report.

### 5.3 Matters arising from Council

There were no matters arising from Council.

### 5.4 Reports on matters arising

#### 5.4.1 Formal Endorsement of the 2019-2020 Consolidated Annual Financial Report

The Committee endorsed the 2019-2020 Consolidated Annual Financial Report.

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*The Director People, Culture and Leadership joined the meeting at 9:45am.*

**5.4.2 External Auditor's Closing Report and Final Management Letter**

The Director People, Culture and Leadership spoke to the report and confirmed that the actions arising from this audit were either in place or would be completed by the end of the 2020 calendar year.

In relation to the audit recommendation regarding the authorised signatories for bank accounts, the Committee recommended that the banking signatories list be compared to the same records held by Council's bankers on a regular basis to ensure that the list held by the bankers remains current at all times. Management agreed to implement this as an ongoing process. The General Manager Governance and Organisational Development also provided further details regarding Council's process that verified requests from third parties regarding bank account changes.

*The Director People, Culture and Leadership left the meeting at 9:57am.*

**6. Internal audit****6.1 Internal audit status report as at 18 November 2020**

The Committee noted the report.

**6.2 Internal Audit Plan reviews completed****6.2.1 Follow-up of Internal Audit recommendations**

The NTT Partner spoke to the report which received an 'Effective' rating and noted that it was a positive result for Council and demonstrates the commitment to implementing controls following audits. Therese Ryan asked a question regarding the methodology used to close off audit actions and the Coordinator Risk Management explained the techniques used to record the evidence provided by the work areas and in signing off on audit actions. The Chairperson asked if there were any issues with the two outstanding audit items and NTT provided the background on these, with the reasoning behind the audit extensions deemed as reasonable.

The Chairperson suggested that milestone reporting would provide benefit in measuring progress on implementation of longer term and complex actions. NTT agreed that this would be factored into their future audit recommendations.

*The Director Procurement and Contract Management and the Procurement Governance and Operations Manager joined the meeting at 10:04am*

**6.2.2 Purchasing and Tendering (Procurement) Internal Audit**

The NTT Partner spoke to the report which received a 'Requiring Improvement' rating and stated that overall there was a good control environment at Council, however there were improvement opportunities in the reporting suite and he also recommended improving the data quality within the vendor database. The Director Procurement and Contract Management outlined the improvements undertaken over the past few years regarding procurement centralisation, systems and training. He welcomed the audit findings and spoke about the system improvements planned to remedy the current software limitations through a new 'purchase to pay' system.

In response to a question from one of the independent members, the NTT Partner stated that they did not believe that the Committee needed to be part of Council's broader procurement decision-making process, however noted that some organisations report their procurement breaches to their Audit Committees and that there could be a need for a higher level of transparency on this topic in the future. The Chair requested that Procurement and Contract Management work in conjunction with Governance to determine appropriate procurement reporting to the Committee, which was noted could be undertaken once or twice per annum.

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The Committee requested an update be provided to the August 2021 Committee meeting regarding the implementation of the actions identified in this internal audit and management agreed to provide this.

Councillor Le Liu provided some specific feedback on the audit report which management and NTT agreed to take on board. This included his concern regarding Finding 3 in the report regarding financial delegations that are attached to terminated staff and non Council staff within TechOne and NTT agreed that they would investigate this finding to provide further background and assurance on this, with a particular focus on the two staff that had \$100,000 financial delegations.

*The Procurement Governance and Operations Manager left the meeting at 10:30am*

*The Director Technology and Digital Innovation and the ICT Manager joined the meeting at 10:30am.*

### **6.2.3 Cybersecurity Internal Audit**

The NTT Partner spoke to the report which received a 'Requiring Improvement' rating and noted that positive work and improvements in this area had been undertaken by management, with some further continuous improvement required. The Director Technology and Digital Innovation stated that Council was committed to their cyber risk mitigation program and welcomed the audit as it was good practice to continue to evaluate the requirements and controls to ensure that Council remained at best practice. The Lead Security Consultant NTT highlighted that the 'Essential 8' was a series of baseline mitigation strategies, indicating that Council still had adequate protection without meeting compliance with the 'Essential 8', although it was recommended as a target for Council to work towards. The Chairperson provided feedback that the report didn't go to the granular level and that future internal audits could provide additional value with a more granular review.

A question from Councillor Hakim was raised about cyber breaches and associated testing and staff training. The Director Technology and Digital Innovation responded that there had been no breaches since the last report to the Committee and that they viewed that an adequate testing and training program was in place. Cr Le Liu asked if Council's encryption strength and preventative controls were adequate and NTT explained that encryption testing was not in the scope, however Council had both a mix of preventative and reactive controls and that the 'Essential 8' was focused on the preventative controls. The Chairperson noted Council's positive relationship with the State Government's Chief Information Security Officer and was pleased to see Council's use of this resource and ongoing collaboration.

*The Director Technology and Digital Innovation and the ICT Manager and the Director Procurement and Contract Management left the meeting at 10:51am*

### **6.3 Internal Audit Review Terms of Reference**

#### **6.3.1 PCI DSS Terms of Reference**

The Audit and Risk Committee approved the Terms of Reference.

#### **6.3.2 Fraud and Corruption Terms of Reference**

The Audit and Risk Committee approved the Terms of Reference, however Therese Ryan highlighted that bribery and red flag reporting were not mentioned in the scope. NTT agreed that these aspects would be added into the scope, and also confirmed that the audit scope will review the findings from the recent staff Fraud and Corruption survey.

### **6.4 Status Report on Open Audit Actions**

The Chairperson noted the format as a new report to the Committee and that there were no audit items overdue.

### **6.5 Proposed amendment to the 2020-2021 Internal Audit Plan**

The General Manager Governance and Organisational Development spoke to the report and provided an update on management's recommendation for the Employee Health and Wellbeing audit to be put forward as a suitable audit option in place of the previously recommended Workforce Planning audit. The

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Chief Executive Officer outlined that a number of efficiency and effectiveness reviews were taking place across the organisation and that workforce planning would be captured under these reviews. The CEO also outlined the importance of employee health and wellbeing, including the additional pressures on employees during 2020 due to COVID-19.

The Committee agreed to defer the Infringement Management audit and Major Project Management audit until 2021-22 and to proceed with the internal audits of Building Legislative Compliance and Employee Health and Wellbeing during 2020-21, with terms of reference to be developed and presented to the February 2021 Committee meeting. In regards to the Registered Food Premises audit it was agreed for this to be held for further consideration, with the CEO and Cr Le Liu to continue further discussions offline. The Committee noted that there may be impacts from the splitting of the State Department of Health and Human Services and if this audit was to be completed by 30 June 2021 then the Terms of Reference should be developed promptly.

### 7. Financial Performance

#### 7.1 Year to date financial report

The Audit and Risk Committee noted the report and there were no questions from the Committee.

#### 7.2 CEO Update - Covid-19 Reactivation and Recovery Plan (Financial Sustainability)

The CEO gave a presentation to the Committee on the planned reactivation and recovery for Melbourne with priority initiatives including prioritising public health and wellbeing and activating the central city. The CEO covered the various impacts on Melbourne, including the financial impacts, an increase in apartment and office vacancy rates, a reduction in foot traffic and a decrease in development planning applications, with aspects expected to worsen in 2021. Council's response included providing funding to activate the city, such as extended outdoor dining, parking vouchers, food vouchers and fast-tracked new bike lanes. The City Economy Advisory Board has been established to ensure that Council could harness strategic input from relevant industry and government representatives through recovery. The Chairperson asked a question about the management of public transport issues and the CEO provided a response to the Committee's satisfaction.

In view of the significant emergence of the new and changed risk factors for the municipality the Chairperson requested a regular report be provided by the CEO to the Audit and Risk Committee to monitor and report on the top three to five risks to Council in regards to the city activation. The CEO agreed to provide a 10 point traffic light report on a quarterly basis.

### 8. Internal Control Framework

#### 8.1 Internal Control Framework review schedule

The report was noted by the Committee.

### 9. External Audit

#### 9.1 Verbal report

There was no verbal report provided by VAGO due to their apology.

### 10. External Audit

#### Subsidiary company reporting

#### 10.1 Queen Victoria Market quarterly report

The Audit and Risk Committee noted the report. Stuart Hall asked whether the QVM had a recovery and reactivation strategy or whether this was included within Council's plan and management agreed to provide a response on this following the meeting. The Chairperson noted that there did not appear to be any internal audit activity proposed in relation to the QVM redevelopment program and that previously assurance on this had been provided annually to the Committee. NTT committed to investigate whether this had been considered by QVM and will report back to the February 2021 Committee meeting.

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### 10.2 Citywide Service Solutions quarterly report

The Audit and Risk Committee noted the report.

## 11. Governance matters

### 11.1 Governance report

The General Manager Governance and Organisational Development spoke to the report noting the recent litigated tree root claim where Council had been unsuccessful with a County Court judgment and was currently considering the merits of an appeal. The Coordinator Risk Management provided an update regarding a Strategic Service Review that had recently been undertaken recommending that the Internal Audit Services contract, which expires on 30 June 2021, is retendered for three years with two further two year extension options. It was noted that the Chairperson will participate in this tender process as the representative of the Audit and Risk Committee.

In relation to Council's system access review the Chairperson requested further details and relevant timelines regarding the four systems where Technology and Digital Innovation has scheduled a recurring access review with the work areas to close the gaps in regards to any risk of inappropriate access. Management agreed to provide a response on this.

Therese Ryan commented on the cladding claims mentioned in the report and management agreed that a further update on Council's cladding exposure would be provided as previously scheduled to the February 2021 Committee meeting by the Director Planning and Building.

The Chairperson outlined the requirement that the Committee agenda is updated to reflect the reporting needs under the new Local Government Act 2020, and management agreed that a paragraph will be included in ongoing Governance reports commencing in February 2021 to provide assurance on how the governance principles were reflected in the reviews of Council's key policies.

The Chairperson proposed that the Audit and Risk Committee biannual activity reports be presented to Council in March and September each year, with the report on Audit and Risk Committee performance to continue to be an annual report in August each year.

*The General Manager Community and City Services joined the meeting at 11:32am*

### 11.2 Victorian Ombudsman's Investigation

The General Manager Community and City Services provided a presentation on the Victorian Ombudsman's recent investigation into the allegation of improper conduct in the On-street Support and Compliance branch and covered the steps being taken to address the matters identified. Management stated that the branch has an understanding of the Ombudsman's expectations and that this will be further reinforced by upcoming training later in December 2020. Stuart Hall asked a question about the root cause of the issue and management provided a response to the Committee's satisfaction. The Chairperson thanked management for the report and the investment in this area.

*The General Manager Community and City Services left the meeting at 11:52am*

### 11.3 Risk Management report

The Chairperson noted the report and stated that it was positive to see the progress made in this area since the previous internal audits had been conducted. The Coordinator Risk Management spoke to the report, stating that Council had placed a high priority on undertaking improvements to the Risk Management Framework and in particular the assessment of risk controls. Management stated that the report had captured certain levels of detail for the first time such as the risk control ratings, and that trend analysis would now be able to be reported on within future reports.

Stuart Hall provided some feedback on several improvement opportunities including the relationship and mapping between Council's control assessment and the designated actions. Management agreed to liaise with the independent member Stuart Hall offline with NTT for further discussions and provide an update on this at the February 2021 meeting.



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Therese Ryan provided some feedback regarding the rating of the workplace safety organisation-wide risk, the importance of factoring in a changed environment when reviewing risk controls and the determination of residual risk ratings, citing the example of strategic risk 14 regarding permits. Management agreed to investigate this and provide a response.

### 11.4 Fraud and Corruption Survey report

The Chairperson took the report as read and sought questions. Therese Ryan asked if Management was happy with the survey outcomes. The General Manager Governance and Organisational Development stated that he was pleased with the results but noted that the response rates had decreased to approximately 400 responses, which was lower compared to the previous survey. The Chairperson stated that the results appeared to be encouraging.

### 12. Governance matters

#### Matters arising from Council minutes

There were no matters arising.

### 13. Matters for presentation to the next meeting of Council

The minutes from the December 2020 Committee meeting would be presented to Council in February 2021.

### 14. Audit and Risk Committee to meet with internal and external audit without management

The Committee did not meet with internal and external audit on this occasion.

### 15. Meeting close

The Chairperson noted the imminent retirement of the Internal Audit Officer, and thanked her for her contribution to the Committee.

The meeting closed at 12:15pm.

**The meeting concluded at 12.15pm**

Chairperson  
Audit and Risk Committee  
Melbourne City Council