

## **Management report to Council**

**Agenda item 6.3**

### **Audit and Risk Committee 2021-22 Annual Activity Report**

**Council**

**Presenter:** Michael Tonta, Director Governance

**September 2022**

#### **Purpose and background**

1. The purpose of this report is to present to Council the Audit and Risk Committee 2021-22 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 2021-22 Annual Activity Report and its subsequent publication on Council's website.

#### **Attachments:**

1. Supporting Attachment (Page 2 of 10)
2. Audit and Risk Committee 2020-21 Annual Activity Report (Page 3 of 10)

## **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 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

## 2021/22 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 September 2022.

The Audit & Risk 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.

This is the second report by the Committee on its activities for the year, the mid-year report having been provided to Council in March 2022. As this report has the dual purposes of meeting the Committee's biannual reporting requirements and providing a full 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 year ended 30 September 2022, during which time the Committee met on five occasions as per its Annual Work Plan. The Committee has five scheduled meetings in its annual meeting cycle.

## **4. Committee Charter**

The last changes to the Charter were to increase the number of members. These revisions were approved by Council in June 2022.

## **5. Committee Membership**

Committee membership is comprised of seven people appointed by Council, with three members being Councillors and four 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 term of independent member Therese Ryan concluded on 30 June 2022. Ms Ryan served with distinction for three terms (nine years). In addition, during the year Council increased the size of the Committee from five members (three independent members and two Councillor members) to seven members (four independent members and three Councillor members). These changes necessitated the recruitment of two new independent members and one additional Councillor member by Council. The Committee was pleased welcome Ms Jen Johanson and Ms Rachel Thomson to the Committee as new independent members following a recruitment process. The Committee was also pleased to welcome new Councillor member Mr Davydd Griffiths.

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

| Attendee            | Role               | Current Tenure   |                 |
|---------------------|--------------------|------------------|-----------------|
|                     |                    | Start Date       | End Date        |
| Geoff Harry (Chair) | 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    |
| Jen Johanson        | Independent Member | 1 July 2022      | 30 June 2025    |
| Rachel Thomson      | Independent Member | 1 July 2022      | 30 June 2025    |
| Cr Philip Le Liu    | Councillor Member  | November 2016    | 26 October 2024 |
| Cr Jamal Hakim      | Councillor Member  | 15 December 2020 | 26 October 2024 |
| Cr Davydd Griffiths | Councillor Member  | 1 July 2022      | 26 October 2024 |

## 6. Meetings and Attendance

A total of five meetings were held during the reporting period. There were four regular quarterly meetings in November 2021 and in February, May and August 2022 plus a special meeting in September 2022 to consider the Annual Financial Reports and the Annual Performance Statements for the year ended 30 June 2022. A summary of meeting dates and attendance is shown in the table below.

Some of the meetings in the reporting period were conducted electronically because of 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, Director Governance, Director Finance & Investment, Manager Corporate Performance and Strategic Risk 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 once in the period.

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**

| Member           | Quarterly Meetings |              |              |              | Special Meeting |
|------------------|--------------------|--------------|--------------|--------------|-----------------|
|                  | 12 Nov 2021        | 11 Feb 2022  | 6 May 2022   | 12 Aug 2022  |                 |
| Geoff Harry      | Attended           | Attended     | Attended     | Attended     | Attended        |
| Therese Ryan     | Attended           | Attended     | Attended     | Not a member | Not a member    |
| Stuart Hall      | Attended           | Attended     | Attended     | Attended     | Attended        |
| Jen Johanson     | Not a member       | Not a member | Not a member | Attended     | Attended        |
| Rachel Thomson   | Not a member       | Not a member | Not a member | Attended     | Attended        |
| Cr Philip Le Liu | Attended           | Attended     | Attended     | Attended     | Attended        |
| Cr Jamal Hakim   | Attended           | Attended     | Attended     | Attended     | Attended        |

| Member              | Quarterly Meetings |              |              |             | Special Meeting |
|---------------------|--------------------|--------------|--------------|-------------|-----------------|
|                     | 12 Nov 2021        | 11 Feb 2022  | 6 May 2022   | 12 Aug 2022 |                 |
| Cr Davydd Griffiths | Not a member       | Not a member | Not a member | Attended    | 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 2022/23.

The Committee revises the work plan as the year progresses to ensure that it remains relevant and enables the Committee to fully discharge its responsibilities to Council. 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 busy.

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.

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 is the 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.

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.

### ***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 in place 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.

PricewaterhouseCoopers 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 Committee continued to review scopes for all internal audit reviews 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.

The following internal audit reports were presented to the Committee during the reporting period. These are listed below showing overall review ratings.

| <b>Review Area</b>                        | <b>ARC Meeting</b> | <b>Overall Rating</b>   |
|---|--------------------|---|
| Cyber Risk Assessment Phase 1: Red Team   | Feb 2022           | External Intrusion – Strong Controls<br>Internal Intrusion – Deficient Controls |
| Governance                                | May 2022           | Requiring Improvement   |
| Cyber Security Phase 2:                   |                    | Requiring Improvement   |
| Pre-implementation Review – PeopleConnect | Dec 2020           | 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.

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.

|  | <b>Total</b> |
|--|--------------|
| Open Actions at 21 April 2022                          | 29           |
| Add New Actions Reported raised since 31 December 2021 | 34           |
| Less Actions completed since 31 December 2021          | 14           |
| <b>Open Actions at 21 July 2022</b>                    | <b>49</b>    |

### ***Financial and performance reporting***

The Committee discharged its responsibilities in relation to the consolidated annual financial report of Council and its subsidiary companies and the annual performance statement of Council.

On 16 September 2022 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 2022.

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 to Council and recommended that Council sign these reports 'in principle' as required by the LGA.

During the reporting period the Committee also received management reports on Council's financial performance.

### ***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 2022 was presented and approved at the February 2022 Committee meeting.

The conclusion of the external audit for 2021/22 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 requires it to monitor the effectiveness of key internal control elements. 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:

- Treasury Policy
- Accounts Receivable Policy



- Occupational Health and Safety Policy
- City of Melbourne Code of Conduct
- Internal Control Framework and Local Government Act 2020 Governance Principles
- Investment and Strategic Income Policy
- Wholly Owned Subsidiaries Companies Protocol
- Fraud and Corruption Prevention Policy and Procedures

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 October 2021 and the outcomes of that assessment were reported to Council in the Committee's Report on Activities in November 2021. The Committee's work plan includes a performance assessment annually and the next one is scheduled for November 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 continues to be a challenge but the increase in Committee membership during the reporting period is expected to add to the Committee's ability to manage its workload. The impact of the COVID-19 pandemic on the operations of Council and its subsidiaries continues to be a challenge at all levels for Council's management team. The Committee's contextual environment remains 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

September 2022