

**MELTON CITY COUNCIL AUDIT AND RISK COMMITTEE
BI-ANNUAL REPORT TO COUNCIL
30 September 2021**

Background

Council has established an Audit & Risk Committee (the Committee) pursuant to Section 53 of the Local Government Act 2020 (the Act) to support Council in discharging its oversight responsibilities. The Committee does this by monitoring, reviewing, endorsing and advising on the matters set out in its Charter.

The appointment of independent members to the Committee provides a measure of independence and enables the Committee to provide advice to Council on matters related to its responsibilities based on broader skills and experience than might otherwise be the case.

Under the Act, the Committee Chair is required to prepare a report to Council through the Chief Executive Officer (CEO) on the Committee's activities twice per annum. One such report is required following the meeting at which the Annual Financial Report and the Annual Performance Statement have been considered and recommended to Council for adoption. The report should indicate how the Committee has discharged its responsibilities as set out in this Charter for the previous year.

The Committee is an advisory committee to Council, and has no delegated authority from Council. It does however have authority, amongst other matters detailed in its Charter, to:

- Endorse key documents including the annual financial reports and performance statements, new and revised policies and other documents that assist in maintaining a strong internal control environment;
- Approve internal and external audit plans and strategies;
- Seek relevant information from Council and its officers as required.

The primary function of the Audit & Risk Committee as stated in the Charter is to monitor:

- Compliance of Council Policies and procedures with the Act
- Council's financial and performance reporting
- Council's Risk Management and Fraud prevention systems and controls, and
- Oversee Council's internal and external audit functions.

Meetings

To date in 2021, the Committee has met on 5 occasions on:

- 17 February 2021
- 12 May 2021
- 24 June 2021 (Special Meeting)
- 4 August 2021
- 8 September 2021.

Meetings were conducted in person at Council when possible, however due to COVID restrictions, it was necessary for some meetings to be conducted via video conference.

All Audit Committee recommendations recorded in the Minutes of Meetings were presented to Council for consideration at the next ordinary meeting of Council.

Membership

The membership of the Committee during the reporting period (January 2021 – September 2021) was:

ARMC Committee Member	Position	Meetings Attended/ Eligible
Robert Tommasini	Chair, Independent external member	5/5
Farshan Mansoor	Independent external member	5/5
Celeste Gregory	Independent external member	5/5
Cr Kathy Majdlik	Mayor/Councillor member	5/5
Cr Julie Shannon	Councillor member	5/5

The members of the Committee provide Council with a diverse and complimentary skill set including financial, legal, risk management and local government expertise.

Review of 2021

Internal Audit

As previously reported to Council, following the expiry of Council's previous internal audit service providers (Oakton Services) in mid-2020, a comprehensive tender process was undertaken in accordance with Council's tendering procedures, resulting in the appointment of Moore Australia on a three-year contract commencing on 1 January 2021.

A comprehensive Audit Plan has been developed adopting the following widely accepted general practice in local government. The key steps in the process are:

- Internal Auditors and CEO develop a list of potential audits to be undertaken over the term of the Auditors' engagement based on the Auditors' experience of common audits in local government and tested against Council's Strategic Risk Register
- Draft Audit Plan presented to Audit Committee for review and discussion
- Audit Committee recommend adoption of the program to Council
- Audit Plan adopted by Council (under CEO delegation).

The Audit Plan for the period 2021-2023 was agreed at the February 2021 Committee meeting. Progress against the adopted Audit Plan is monitored and reviewed at each Committee meeting.

In accordance with the adopted Audit Plan the following audits were conducted and presented to the Committee during the reporting period:

- Capital Projects Framework Review
- Integrity Framework Review
- Maintaining Local Roads Review.

The implementation of agreed actions arising from internal audits and outstanding previous audit recommendations are monitored by the Committee at each meeting.

The remaining planned audits for 2021/2023 on the approved Audit Plan are as follows:

- COVID Lessons Learned and Controls Validation
- Expenses Review
- Procurement
- ICT Security and System Controls
- Developer and Investment Contributions
- Contract Management
- Asset Management
- Privacy and Data Management
- Payroll Review.

Special Meeting

A special Committee meeting was convened on 24 June 2021 to consider the Victorian Ombudsman's report on its "Investigation into Melton City Council's engagement of IT company MK Datanet Pty Ltd." The comprehensive Minutes of that meeting containing Management's response to the recommendations made in the report have been previously provided to Council.

Internal controls

In addition to receiving internal audit reports, the Committee also has oversight in relation to a number of other internal control measures. During the reporting period the Committee received reports on:

- Review of Council Budget
- Review of Council Plan
- Review of key policies (Debt Collection Policy),
- Status update on Fraud & Corruption Plan
- Annual Insurance Program Review
- Changes to Local Government Performance Reporting Framework
- Employee Code of Conduct Review
- New Local Government Act Implementation
- Annual Review of Key Internal Controls.

Financial Reporting

The Committee reviewed management financial reports at every ordinary meeting during the reporting period. Financial performance for each quarter was presented with analysis of variations to budget. A Capital Works program quarterly report and an Investment Holding Report were also presented for review.

External Audit - Financial and Performance Reporting

The external audit function is the responsibility of VAGO, who in turn outsourced the financial audit to HLB Mann Judd for the 2020/21 financial year.

The audited Annual Financial Statements and Performance Statement were presented to the September 2021 Committee meeting, and were recommended for Council approval. Details of accounts and performance reporting were reviewed and endorsed at that meeting.

The Victorian Auditors General Office (VAGO) also tabled their Closing Report and Final Management Letter at the September meeting. The Auditors concluded that the statements were presented fairly under the Local Government Act, and there was only one open audit recommendation noted in the Management Letter regarding development of an ICT Physical Security Policy.

Risk Management

Council's Strategic Risk Register which documents Council's key risks and the control measures to address each of the risks was not formally reviewed by the Committee during the reporting period. The Committee has noted a review as a potential area of focus for 2022.

Council's Insurance program for 2021/22 was reviewed and endorsed at the August 2021 Committee meeting.

The Business Continuity Annual Report was presented to the Committee in May 2021. Although business continuity and disaster recovery plans have not been formally reviewed during the year, they have been thoroughly tested during COVID lockdowns. A review is recommended as part of the upcoming COVID Lessons Learned Review.

Fraud Prevention Controls

A status update on Council's Fraud and Corruption Plan developed in response to various regulatory and internal audit recommendations was presented to the Committee's May 2021 meeting. An initial progress report identifying 22 agreed improvement actions (14 of which had been implemented) was presented at the 9 December 2020 Committee meeting. The Committee continues to monitor actions remaining to be implemented.

The CEO reports any incidents of potential fraud to the Committee. There were no such

reports of fraud during the reporting period other than the issues raised in the Victorian Ombudsman's MK Datanet report.

A number of additional controls were identified, and either already put in place or are agreed to be put in place, to strengthen Council's fraud and corruption controls as a result of MK Datanet report. These measures are detailed in the Minutes of the 24 June 2021 Committee meeting previously provided to Council.

Committee Performance

As required by its Charter, the Committee undertook a self-assessment of its performance measured against the committee's obligations as detailed in the Charter. The self-assessment results highlighted the following main themes which were reported to the committee's September Meeting:

- An improved induction process for Councillor members is required
- More time needs to be allocated for Committee meetings
- An increased focus on Risk Management is required
- Compliance reporting should be added to the Committee work plan
- Committee Minutes to be improved by including notes on Committee discussion.

Conclusion

The committee continues to discharge its Charter responsibilities and provide Council with guidance as appropriate.

Robert Tommasini
Chair Audit & Risk Committee.
30 September 2021.