

Strathbogie Shire Council
**Audit and Risk Committee
Meeting Minutes**

Extraordinary Meeting
19 September 2022

Minutes of the Strathbogie Shire Council Audit and Risk Committee Extraordinary Meeting held on Monday 19 September 2022 online via Team commencing at 3.00 pm.

Present

| | |
|--------------------|--|
| Paul Ayton (Chair) | Community Representative |
| Alistair Thomson | Community Representative |
| Cr Paul Murray | Council Representative |
| Cr David Andrews | Council Representative |
| Cr Laura Binks | Council Representative (Observer only) |

Officers

| | |
|--------------------|--------------------------------|
| Julie Salomon | Chief Executive Officer |
| Dawn Bray | Director People and Governance |
| Upul Sathurusinghe | Chief Financial Officer |
| Kerry Lynch | Governance Officer (Minutes) |

| | |
|-------------------|--------------------------------------|
| Brad Eade | Internal Auditors – AFS & Associates |
| Danielle McKenzie | External Auditors – Crowe Audit |

1. Welcome

2. Acknowledgement of Traditional Land Owners

*We acknowledge the Traditional Custodians of the places we live, work and play.
We recognise and respect the enduring relationship they have with their lands and waters, and we pay respects to the Elders past, present and emerging.
Today we are meeting on the lands of the Taungurung peoples of the Eastern Kulin nation, whose sovereignty here has never been ceded.*

3. Apologies

| | |
|-------------------|--|
| Alister Purbrick | Community Representative |
| Mark Freudenstein | Community Representative |
| Michelle Bromley | Coordinator Governance and Record Management |
| Braydon Aitken | Acting Director Community and Planning |
| Vlad Amadek | Director Sustainable Infrastructure |

4. Disclosure of Interests

Nil

5. Confirmation of Minutes of Audit and Risk Committee held on 1 July 2022

Moved: Alistair Thomson
Seconded: Cr Paul Murray

That the Minutes of the Meetings of the Audit and Risk Committee held on Friday 1 July be confirmed.

Carried

- 6. Business**
- 7. Standing Items**
- 8. Items raised by Committee Members**
- 9. Next Meeting**

6. BUSINESS

6.1 2021-2022 Annual Financial Report

The Local Government Act 2020 (the Act) states it is essential there is a legislative framework that provides for councils to be accountable to their local communities in the performance of functions and the exercise of powers and the use of resources.

Accordingly, it is a statutory requirement under the Act that councils prepare and report on medium and short term financial plans to discharge their duties of accountability and transparency to their communities.

The Annual Financial Statements for 2021/22 have been prepared and submitted to Crowe Australasia, the appointed auditors for the Victorian Auditor General's Office, for review.

Use has been made of the Local Government Model Financial Report 2021/22 released by Local Government Victoria to assist councils across the state in providing uniform financial reports that meet the requirements of the Act and accounting standards.

Overall, the Financial Statements underline that Council's financial position remains sound.

One of the key functions of the Audit and Risk Committee, in accordance with the *Local Government Act 2020*, is to review the Report, which consists of the Financial Statements and Notes.

Once finalised, the 2021/22 Annual Financial Report will be forwarded to Council for endorsement and signing. The approved and audited Report then forms part of the Council's Annual Report, as required by Sections 98 and 99 of the Act.

Discussion

The Annual Financial Report is prepared strictly in accordance with the applicable Australian Accounting Standard which includes the Australian equivalent to International Financial Reporting Standards (AIFRS). These Standards require the preparation of five mandatory statements. These statements include –

- Comprehensive Income Statement (Operating – Accrual Statement), which comprises non-cash items such as Depreciation and cost of goods (assets) sold but excludes Capital Expenditure and Transfers to and from Other Reserves.
- Balance Sheet lists Councils' assets and liabilities. It indicates the overall financial position of Council as at 30 June 2022.
- Statement of Changes in Equity, which indicates movements in Council's Reserve Funds.
- Statement of Cash Flows, which indicates all cash expended and received for all activities during the financial year.
- Statement of Capital Works, which details Council's capital works expenditure for the financial year. It sets out the expenditure on creating or buying property, infrastructure, plant and equipment by each category of asset.

For the 2021/22 financial year, Council is also required to prepare two 'Budget Comparison Notes with variance explanations to the 2021/22 Annual Budget relating to:

1. Income and Expenditure
2. Capital Works.

The following analysis of the 2021/22 Annual Financial Report is at a macro level, which reflects the nature of the Report's disclosures. It is not designed nor intended to be used as a Management report that provides details of programs, or resultant variances. No analysis has been provided for the Statement of Changes in Equity.

1. **Income Statement**

The operating result represents the accrual accounting treatments, which includes the non-cash items of depreciation and cost of goods (assets) sold, but excludes expenditure on Capital items, loan proceeds and loan principal repayments and transfers to and from other reserves.

For the year ended 30 June 2022, Council reported an Operating surplus of \$7,016,933. Operating costs were \$29.3 million.

The result was also impacted by recognition of income in accordance with Accounting Standards as follows:

- The need to reduce operating grant income by \$481,122 to reflect grants received but with obligations still attached at 30 June – will adjust in 2021/22 so there is no overall impact
- The need to reduce capital grant income by \$2,675,524 similar to above
- Recognition of expense of \$264,776 for amortisation of 'right of use assets', finance costs for leases (non-cash Item)
- Early payment of 75% 2022/23 allocation of Finance Assistance Grant of \$4,508,535 from the Grants Commission. This has been recognised as income. However, impact to financial statements is minimal as the similar payment happened (50% early payment) for 2021/22 grant allocation
- There was an income increase of \$2,133,840 due to lower than expected costs from a tender process to complete the Violet Town landfill rehabilitation and future maintenance works, which will be spread across a number of financial years.

2. **Balance Sheet**

Council's Balance Sheet indicates that Council's overall financial position and its cash and liquidity position is sound and within acceptable financial parameters.

Council's cash position as at 30 June 2022 was represented by cash on hand and investments of \$21.80 million. This represents a small increase in cash holdings of \$303,844 during the 2021/22 financial year due primarily to receipt of significant reduction in capital grants and offset with less than budgeted expenditure on capital works. A number of capital works will also be carried over into the 2022/23 financial year.

The value of Council's property, infrastructure, plant and equipment non-current assets as at 30 June 2022 is \$324.22 million, an increase of \$41.3 million, due primarily to an external revaluation of infrastructure assets.

Council's end-of-year working capital ratio is 2.32:1, which is greater than the target ratio of 1.1:1. This ratio is used to assess Council's ability to meet current commitments and is derived by dividing current assets by current liabilities.

3. Cash Flow Statement

Cash flow reflects expenditure on capital works and there are a number of projects carried forward to 2022/23 due to difficulties experienced in sourcing contractors to undertake works due to a highly competitive market in the post Covid economy.

4. Statement of Capital Works

Council completed \$7.22 million worth of projects for 2021/22, representing a decrease of 31% over the previous year as national supply chain issue and less availability of external contractors to complete works.

It is noted that the expenditure of funds is not a reflection of the actual progress of works as several large projects were underway in 2021/22 but are not due for completion until 2022/23, and so timing is a big factor in the expenditure of these funds. Some works have been carried over to 2022/23, some of which are attached to grant funding received in 2021/22.

The Financial Report and Performance Statement have been updated to ensure consistency in the quoted figures and commentary around the Violet Town Landfill project.

Moved **Cr Paul Murray**
Seconded: **Alistair Thomson**

That the 2021-2022 Annual Financial Report be endorsed by the Audit and Risk Committee for presentation to Council for adoption, subject to the alignment of commentary and financials across the Financial Report and Performance Statement in relation to the rehabilitation works at the Violet Town landfill.

Carried

6.2 2021-2022 Performance Statement and Governance Management Checklist

The Local Government Performance Reporting Framework (LGPRF) is a mandatory system of performance reporting that must be completed by all Victorian councils.

The Framework uses a range of standardised indicators and metrics to ensure councils are measuring and reporting on their performance in a consistent way to promote transparency and accountability in the local government sector.

The results of the reporting system are made available to the public via the Know Your Council website, which allows for comparisons between councils. Comparisons are also provided for groupings of councils, such as Small Rural Councils, to which Strathbogie Shire Council belongs.

The LGPRF system is used to produce two documents: a Performance Statement and a Governance and Management Checklist. Both documents have been prepared and submitted

to Crowe Australasia, the external auditors appointed by the Victorian Auditor General's Office for review. This audit process has now been completed.

The Draft Performance Statement shows consistent performance with previous years, with some metrics such as staff turnover and participation in the library service, being impacted by COVID 19 pandemic lockdowns, loss of staff through State government mandatory vaccination requirements and significant labour market shifts.

The Draft Governance Management Checklists focuses on a range of policies, plans and other documents, with its aim to identify if a sound good governance framework is in place for council.

Strathbogie has performed well against this Checklist, with a 'Yes' answer against all of the listed items of the good governance framework.

Council's Audit and Risk Committee considered both documents at its meeting on 19 September 2022 and a resolution passed to forward the documents to Council for adoption.

Moved: Alistair Thomson
Seconded: Cr David Andrews

That the Audit and Risk Committee endorse the following reports for presentation to Council for adoption:

- 1. Draft Performance Statement 2021-2022, subject to aligning commentary and financials across the Financial Report and Performance Statement in relation to the rehabilitation works at the Violet Town landfill.**
- 2. Draft Governance and Management Checklist 2021-2022.**

Carried

6.3 Draft Final Management Letter

The Final Management Letter was circulated to the Audit and Risk Committee members on 9 September 2022 for consideration. The management letter notes two outstanding items relating to Policies and Procedures and Council's IT Strategy, both with moderate risk ratings. The report was noted.

Moved: Cr Paul Murray
Seconded: Alistair Thomson

That the report, as tabled, be noted.

Carried

6.4 Closing Report to Audit Committee

The draft Closing Report to the Audit Committee has been received and provided to the Committee. The following were noted by the External Auditors:

- the final report still has to go to VAGO for the approval review process however the External Auditors are comfortable with the final draft statements presented
- the closing report book ends the audit strategy for the year including valuation of assets. The Assets Team have been involved in how to go about the valuation of assets in this financial year
- assets are required to be held at fair value and more work has been done around what relevant indices, including industry guides, can be applied to ascertain fair value
- adjustments to assets are considered immaterial and a valuation process will occur this year for assets
- there are no material deficiencies in terms of internal controls relating to COVID and audits and disclosures within financial statements went ahead as planned
- no issues were noted in monetary and non-monetary contributions
- the External Auditors were comfortable with how revenue was reported in the financial statements relating to grants
- necessary adjustments have been made in relation to the provision from the Violet Town Landfill project.
- the Final Management Letter indicates that some of the open items have been closed out and that no new items have needed to be included.

Moved: Cr David Andrews
Seconded: Alistair Thomson

That the report, as tabled, be noted.

Carried

6.5 Protective Data Security Plan (PDSP)

The Office of the Victorian Information Commissioner (OVIC) requires councils to submit a biannual protective data security plan to outline how the Victorian Protective Data Security Standards are being implemented by the local government sector.

The Plan is comprised of a series of standards and elements which provide evidence that the standards are being implemented and applied.

OVIC recognises that the standards are a significant impost on councils, particularly small rural councils. To this end, councils are asked to identify their current progress, and the actions planned for the next two years, to achieve the relevant standards. Standard 'maturity' ratings are to be used by councils as part of the council self-assessment process.

Our PDSP was submitted to OVIC on 30 August 2022 . It identifies that there is still a fair way to go to implement some of the standards to a minimum 'basic' level however there has been progress since the previous PDSP was submitted to OVIC in 2020.

Further measures, such as identifying the security value for all outgoing correspondence, will be adopted by the organisation in the near future. A range of actions will be implemented this financial year for reporting to the Audit and Risk Committee, however it is fair to say that our work towards attaining the security standards is steady.

The report was noted.

Moved: Cr Paul Murray
Seconded: Alistair Thomson

That the Protective Data Security Plan submitted to the Office of the Victorian Information Commissioner, as tabled, be noted.

Carried

6.6 Calendar of Meetings for 2022-23, Including Additional Meeting Dates – Policy Review and Strategy

Officers are in the process of responding to an audit of Council policies, which found a number were out of date and others could be rationalised into other policies or were no longer required.

A number of policies have particular relevance to the remit of the Audit and Risk Committee, including policies relating to financial and risk management matters.

Given the size of quarterly committee agendas, it is considered that adding a raft of draft policies for review will make the workload for quarterly meetings unmanageable.

Further, it is considered that the Committee would benefit from an annual strategy meeting where items such as the future audit program, an annual review of the Committee's performance and other matters such as a review of the Audit and Risk Committee Charter can be the sole focus of the meeting.

The Committee agreed to add two additional meetings to the annual meeting calendar, and that the meetings will be diarised as soon as possible after this meeting.

Moved: Cr David Andrews
Seconded: Cr Paul Murray

That the Audit and Risk Committee endorse the following dates and add to the Audit and Risk Committee meeting schedule:

Extra Ordinary Meeting – Policy review 7 October 2022

December Quarter Meeting – 2 December 2022

March Quarter Meeting – 3 March 2023

Extra Ordinary Meeting – Strategy 7 April 2023

June Quarter Meeting – 2 June 2023.

Carried

6.7 Audit and Risk Committee Webpage and Portal

New Portal

Audit and Risk Committee agendas are extensive, often with more than ten attachments, as well as the agenda paper and need to be streamlined.

The current system of providing agendas and attachments via email is unwieldy and hinders access to previous agendas and minutes for Committee members and Officers alike. The current system of agenda and minute distribution does not maximise data security, while minimising cyber security threats.

It is recommended that the Audit and Risk Committee members be provided with access to an internal Strathbogie Shire portal, similar to that used by Councillors to access agendas and minutes. This can be done through a secure network and will provide for ease of access to documents for all Committee members.

It was noted that there are some instances where it may be difficult to access the portal e.g. international connections.

Website Page

The Audit and Risk Committee is an important component of our governance and risk management framework and is a mandatory Committee that must be appointed under the Local Government Act 2020.

The important work of the Committee should be recognised on the Council's website. It is proposed a new page be dedicated to the Committee, comprised of short bio's for the Committee members, along with copies of the endorsed minutes for the Committee (which are in turn included in the Council agenda) and the Charter.

The development of this webpage increases awareness of the Committee's work within the community, as well as maximising public transparency around the important independent oversight it provides around Council operations and finances.

Moved: Alistair Thomson
Seconded: Cr Paul Murray

That the Audit and Risk Committee endorse:

- 1. That access to future agendas will be via an online internal portal to streamline the presentation of the agenda and attachments.**
- 2. The development of the Audit and Risk Committee webpage on the Strathbogie Shire Council website.**

Carried

6.8 Annual Committee Performance Report and Biannual Audit and Risk Report

The Audit and Risk Committee Charter require an annual performance report to be prepared and presented by the Chair, which in turn is presented to the Chief Executive Officer for presentation to the next available Council meeting.

The Charter also requires a six monthly Audit and Risk Report to be submitted to the Chief Executive Officer for submission to Council outlining the findings and recommendations of the Committee over the previous two years.

It is noted that an annual report has not been presented to the Chief Executive Officer since the adoption of the Audit and Risk Committee Charter in 2020. This has been an unfortunate management oversight and the matter was raised by Officers with the Chair, Paul Ayton, in August 2022.

To ensure compliance with the reporting requirements of the Charter, it is recommended that Officers work with the Chair to develop both an annual report and a biannual report for presentation to the December 2022 Committee meeting.

Moved: Alistair Thomson
Seconded: Cr David Andrews

That the Audit and Risk Committee:

- 1. Authorise the Chair to work with the Governance Team to develop templates for the Annual and Biannual Reports**
- 2. Receive an Annual and twice-yearly Reports on its performance at the December 2022 meeting.**

Carried

7. STANDING REPORTS

7.1 Internal Audit Program Reports

7.1.1 Business Continuity Plan and Disaster Recovery Planning

The Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) were audited in May 2022.

Management was aware that the BCP required updating and rewriting, however noted that in practice, our response to the COVID 19 pandemic was strong and sound. This was recognised by the audit, particularly the use of a risk matrix to identify high risk services/functions and risk mitigation measures.

The Internal Auditors noted that Disaster Recovery Planning systems are in place, however contracts need to be formalised and annual testing needs to be undertaken.

Overall, both documents and frameworks need to be reviewed, awareness raised across the organisation and a business impact analysis lens applied when reviewing and updating these documents. The Internal Auditor also noted that there is no Business Continuity Policy in place which would define who has ownership of the policy and implementation rights.

Ownership of the Disaster Recovery Plan should also sit at the appropriate level ensuring proper delivery.

The recommendations from the Business Continuity Plan and Disaster Recovery Planning audit have been added to the Outstanding Internal Audit Items Update and a series of actions will be undertaken to respond to the audit's findings over the next few months, with the aim for completion being March 2023.

Moved: Alistair Thomson
Seconded: Cr Paul Murray

That the following Internal Audit Reports be noted:

Business Continuity Plan and Disaster Recovery Planning (May 2022).

Carried

7.1.2 Internal Audit Program Status Update and Industry Updates

The Internal Audit Program Status Update and Industry Updates were noted.

The Chief Financial Officer has recommended that a review be undertaken of the Revenue Operations (i.e. rate services). The Internal Auditors agreed to a revised program and will postpone a current review relating to outstanding issues in the short term.

Moved: Alistair Thomson
Seconded: Cr Paul Murray

That the Audit and Risk Committee note the revised Internal Audit Program Status.

Carried

7.2 Outstanding Internal Audit Items Update

The list of outstanding internal audit items has been reviewed, updated and reordered to utilise a 'traffic light' system of categorising what has been completed, what is in progress and what actions are overdue.

The Outstanding Internal Audit Items Update was noted.

Moved: Cr David Andrews
Seconded: Alistair Thomson

That the Audit and Risk Committee note the outstanding Internal Audit items update and progress made on implementation of past audit recommendations.

Carried

7.3 Policies Update

Officers have been working through the Council Policy audit to review and update Council Policies. A new policy template has been developed to ensure consistency in format and information.

For the first time, the Governance team have developed a policy impact assessment tool to ensure requirements and considerations raised by key legislation such as the *Local Government Act 2020* (including the Act's principles, *Charter of Human Rights and Responsibility Act 2006*, climate change impacts (as required under the *Local Government Act 2020*) and gender equity impacts (as required under the *Gender Equity Act 2020*) are addressed while policies are being drafted.

The Policy Update has been changed to reflect the deferral of the public transparency policy review to the October 2022 meeting.

The summary of progress made around updating our Council policy framework was noted.

The newly developed policy impact assessment tool was noted.

Moved: Cr Paul Murray
Seconded: Alistair Thomson
Carried

That the Audit and Risk Committee note the progress being made on updating Council's policy framework and the introduction of a policy impact assessment tool.

Carried

7.4 Strategic Risk Register Management Update

A new template has been developed to report on progress in addressing key risks outlined in the Strategic Risk Register, which was finalised at an extra ordinary Committee meeting in July 2022.

The Register is based on the residual risk rating and outlines what progress has been made in terms of implementing further measures to mitigate risk, along with any subsequent change in the overall residual risk rating.

The following changes to the Strategic Risk Register Update are noted:

- The risk rating on page eight (8) relating to Compliance and Corporate Governance has been amended to a likelihood of occurrence increasing from two (2) to three (3) and residual risk rating of 12, so the risk rises from medium to high
- The risk relating to Council financial management/funding sustainability on page six (6) has been merged to include the last risk on page 12
- A reduction in the likelihood of the risk relating to responding to disaster or extreme weather events to maintain essential functions from four (4) to three (3), resulting in the risk reducing from extreme to high given the findings of the Internal Audit for the Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP) which

demonstrated Council has a sound model for a new BCP in the risk based COVID 19 pandemic BCP response.

Moved: Alistair Thomson
Seconded: Cr Paul Murray

That the Audit and Risk Committee note the updated risk register and progress made in implementing risk management measures to address high residual risks.

Carried

7.5 Audit Committee Work Plan

The report was noted. The Audit Committee Work Plan has been updated to include specific dates and comments on actions.

Moved: Alistair Thomson
Seconded: Cr Paul Murray

That the Audit and Risk Committee note the updated Audit Work Plan.

Carried

7.6 Human Resources Key Strategic Indicators

The Committee noted the Human Resources Reports from 1 June to 31 August 2022 which includes narrative on some current issues.

Action:
Include Long Service Leave planning in future reports.

Moved: Cr David Andrews
Seconded: Cr Paul Murray

That the Audit and Risk Committee note the Human Resources Key Strategic Indicators report.

Carried

8. ITEMS RAISED BY COMMITTEE MEMBERS

Alistair Purbrick enquired as to whether Officers were aware that as part of the Elloura Development an agreement was made by the Developers to decommission the bridge to Buckley Park and have bitumen laid.

The CEO advised the meeting that Officers were only recently made aware of the agreement and that both parties were working together through their roles and responsibilities to complete the project.

9. CONFIDENTIAL MEETING WITH CEO

The meeting closed at 11.15am and the Committee, CEO and Director People and Governance met to discuss confidential matters.

The CEO advised that she has submitted a report to be considered as a matter of urgent business to be considered at the Council meeting on 20 September regarding appointment of an additional Council Representative for the Audit and Risk Committee. The recommendations in the report are listed below:

- 1. That Council appoint the Mayor, Councillor Laura Binks as an additional substitute member of the Audit and Risk Committee to act as a substitute representative for any Councillor who has been appointed to sit on the Audit & Risk Committee who is unable to attend until the Annual Statutory Meeting is held in November 2022.*
- 2. That Council appoint the Mayor, Councillor Laura Binks as a substitute member of the Audit and Risk Committee until the Annual Statutory Meeting is held in November 2022, to act as a substitute representative for any Councillor who has been appointed to sit on the Audit and Risk Committee but is unable to attend.*

10. NEXT MEETING - Extraordinary Meeting 7 October 2022 at 9.30 am

Meeting closed at 3.40 pm

| Audit and Risk Committee – Follow up actions from meeting 7 July 2022 | | | | | |
|--|--|---|-------------|-------------|---|
| Meeting Date | Item Number | Action | Responsible | Status | Comment |
| 7 July 2022 | 6.1 Internal Audit Program | An action plan be provided to the next meeting including current status of the issues and definitive timeframes around completion dates | Dawn Bray | Complete | Managers have been contacted to provide a plan for the completion of outstanding audit actions and definitive completion dates. |
| 7 July 2022 | 6.3 Risk Management | Strategic Risk Register be reviewed bi-monthly by Officers. Updates and emerging risks to be documented and risk register provided to the Audit Committee as a standing item. | Dawn Bray | Complete | The Strategic Risk Register will be updated following the Audit and Risk Committee meeting to reflect progress made in implementing management measures. |
| 7 July 2022 | 6.6 Audit Committee Work Plan | Officers to refine work plan actions to include specific completion/due dates and status of actions. | Dawn Bray | Not Started | Officers have focussed on improving the systems behind the Committee's operation, the agenda and reporting systems. A focus on the work plan will occur in the next two months. |