



**Audit and Risk Committee**

**Annual Report 2020**

# **MACEDON RANGES SHIRE COUNCIL**

## **Audit and Risk Committee**

### **Annual Report 2020**

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**Brian Collins**

Chairperson

Audit and Risk Committee

3 December 2020

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## Introduction

As part of its governance obligations to its community, Council has established an Audit Committee. The Audit Committee was formally appointed under *Section 139 of the Local Government Act 1989* as an Advisory Committee to Council. From 1 September 2020 the Committee became known as the Audit and Risk Committee as per the requirements of the *Local Government Act 2020*.

Council revised the Charter for the Audit Committee as part of the move to becoming the Audit and Risk Committee incorporating the requirements as outlined in the *Local Government Act 2020*. The purpose of the Charter is to define the role and responsibilities and facilitate the operation of the Audit and Risk Committee. Amongst other things the Charter requires that:

- The Committee shall comprise five members being two Councillors and three Independent persons;
- Two Councillors shall be appointed annually as members of the Committee;
- Nominations shall be publicly invited from independent persons within the community to become members of the Committee;
- Independent members will be appointed in a manner that achieves three years terms in a non-current cycle, resulting in one independent- member advertisement process per annum;
- All members shall have full voting rights; and
- The Chairperson shall be appointed from the independent members on an annual basis.

All these requirements have been met.

During 2020 Committee members were:

- Mr. Brian Collins – Independent Member (Appointed 2018 through to 2020)
- Mr. Peter Matthews – Independent Member and Chairperson (Appointed 2018 through to 2021)
- Ms Michelle Betson – Independent Member (Appointed 2020 through to 2022)
- Cr. Janet Pearce – Councillor Delegate (and Mayor) from 1 January 2020 to 23 October 2020.
- Cr. Natasha Gayfer – Councillor Delegate from 1 January 2020 to 23 October 2020.
- Cr. Geoff Neil – Councillor Delegate from 25 November 2020.
- Cr. Mark Ridgeway – Councillor Delegate from 25 November 2020.

This is the tenth Annual Report prepared by the Audit and Risk Committee and presented to Council.

# 1. Summary of Work Performed

## 1.1 Financial Audit

The Victorian Auditor-General appointed RSD Audit as their agent to undertake the financial audit for the year ended 30 June 2020. RSD Audit were represented at relevant Committee meetings by Ms Kathie Teasdale.

The Financial Audit protects the interests of Councillors and Ratepayers and enables the Auditor-General to form an opinion on whether Council's financial report and performance statement meet the requirements of the Audit Act 1994. The Financial Audit focuses on the accuracy of recording income and expenditure, the existence and measurement of assets and liabilities, and compliance with accounting standards.

The Auditor-General's Audit Strategy was discussed at the Committee meeting held on 6 May 2020.

### Financial Statements

The Financial Statements are the typical end of financial year statements that are prepared by many public companies and organisations including not-for-profit entities.

The Financial Statements are prepared in compliance with Australian Accounting Standards, Local Government (Finance and Reporting) Regulations, and the Local Government Model Financial Report.

The Financial Statements comprise:

- Comprehensive Income Statement
- Balance Sheet
- Statement of Changes in Equity
- Statement of Cash Flows
- Statement of Capital Works
- Notes to the Financial Statements.

The Financial Statements include a comparison between the last two financial years. Note 2 of the "Notes to the Financial Statements" includes a comparison between the Budget and the Actual end of year results.

The Financial Statements were audited by the Auditor-General's Agents; RSD Audit. RSD Audit undertook the audit remotely for 2019/20 due to COVID-19 restrictions. The audit included a review of the content and format of the financial statements by the Auditor-General.

The audit is carried out as described in the Audit Strategy. The Audit Strategy was presented to the Audit Committee meeting on 6 May 2020. The Annual Financial Statements for the year ended 30 June 2020 were presented to the Audit and Risk Committee meeting on 15 October 2020. Ms Kathie Teasdale of RSD Chartered Accountants attended the meeting and provided an overview of the statements.

Subsequently, the Auditor-General completed their audit and issued the Auditor's Report (sometimes known as the audit opinion).

The Auditor-General formed the opinion that the Financial Statements presented fairly, in all material aspects, the Council's financial position as at 30 June 2020 and the Council's financial performance and its cash flows for the year ended 30 June 2020 in accordance with the applicable Australian Accounting Standards and the financial reporting requirements of Local Government Act.

The Auditor-General provided the Auditor's Report to the Minister for Local Government, the Minister for Finance, the Secretary of Department of Environment, Land, Water and Planning and the Secretary of Treasury and Finance.

The Auditor's Report and the Financial Statements were included in Council's Annual Report, and presented to the Council meeting on 26 November 2020.

The VAGO Final Management letter for the year ending 30 June 2020 was presented to the Audit and Risk Committee at its October meeting.

## 1.2 Performance Audit

The Victorian Auditor-General appointed RSD Chartered Accountants as their agent to undertake an audit of the Performance Statement for the year ended 30 June 2020. RSD Audit were represented at relevant Committee meetings by Ms Kathie Teasdale.

The Performance Statement reports to the community on how well Council has performed against the Victorian Government's performance indicators. The Performance Statement includes the results for:

- Nine prescribed service performance indicators;
- Seven sustainable capacity indicators; and
- Eleven financial performance indicators.

RSD Audit, the Auditor-General's Agents, audited the Performance Statement. The audit is carried out as described in the Audit Strategy. There are two major phases in the audit: firstly the on-site component which was completed remotely in 2019/20 due to COVID-19 restrictions by RSD Chartered Accountants; and, secondly the off-site review by the Auditor-General.

The Performance Statement was presented to the Audit and Risk Committee meeting on 15 October 2020 by Ms Kathie Teasdale of RSD Audit.

Subsequently, the Auditor-General completed their audit and issued the Auditor's Report.

The Auditor-General formed the opinion that the Performance Statement was presented fairly and in accordance with the Local Government Act.

The Auditor-General provided the Auditor's Report to the Minister for Local Government, the Minister for Finance, the Secretary of Department of Environment, Land, Water and Planning and the Secretary of Treasury and Finance.

The Auditor's Report and the Performance Statement were included in Council's Annual Report, and presented to the Council meeting on 26 November 2020.

## 1.3 Internal Audit

The Internal Auditor is a Consultant to Council. HLB Mann Judd were appointed the internal auditors in 2019 and have fulfilled the role of the internal auditor for the 2020 year and Mr Mark Holloway is the audit partner.

The purpose of an internal audit (also known as a Review) is to provide assurance to the Executive, Audit and Risk Committee and Council by reviewing and testing the existence and effectiveness of policies, procedures and practices of an area of operation. An internal audit is aimed at reviewing operational risks and implementing controls to eradicate or minimise the risk.

The objective of internal audits is twofold. Firstly, it is for the Internal Auditor to offer an opinion on the existing policies and procedures. Secondly, it is for the Internal Auditor to provide recommendations to improve the policies and procedures to reduce the risk of systemic problems arising in the future.

Council's Executive, in conjunction with the Internal Auditor, drafted the Strategic Internal Audit Plan for the period 1 July 2020 to 30 June 2023 and the Audit Committee endorsed the Plan at its meeting on 13 August 2020.

### Internal Audit Reports

The Internal Auditor prepares a Memorandum of Audit Plan prior to each Review commencing, which is reviewed by the relevant Director.

The reviews conducted in 2020 were predominantly conducted off-site due to COVID-19 restrictions by the Internal Auditor in consultation with the relevant Department Manager and other key Staff. Following the site interviews, the Internal Auditor prepares a Report and Recommendations. The Report also includes the Department Managers Response to each recommendation.

At the conclusion of the Review, the Report is presented to the Committee by a representative of HLB Mann Judd. The relevant Director and Department Manager also attend the meeting. The following reports were presented to the Committee during the 2020 calendar year:

1. Parks and Gardens (2019/20 Program)
2. Project Management (2019/20 Program)
3. Occupational Health and Safety (2019/20 Program)
4. Human Resources and Performance Management (2019/20 Program)
5. Asset Management including Asset Maintenance (2020/21 Program).

The following remaining internal audits are programed for 2020/21:

- Fraud and Corruption Control Framework (AS8001-2808)(incl. awareness survey)
- Service Planning
- Payroll

### **Internal Audit Actions – Management Progress Reports**

The benefits of Internal Audit Recommendations will not begin to be realised until such time as the Recommendations are acted upon by management and are in operational practice.

After Management accepts Internal Audit Recommendations they become Actions, which are allocated to the relevant Department Manager to be implemented.

To monitor whether this is occurring, the following steps are taken:

1. Actions are entered into a centralised report
2. Managers periodically record the progress being made (on each Action).
3. A quarterly Progress Report is provided to the Executive.
4. A quarterly Progress Report is provided to the Committee.
5. After each Action has been reported as “complete” it is removed from the list.



## **2. Other Business**

### **2.1 COVID-19 Pandemic**

As the COVID-19 Pandemic has had a significant impact on the operations of the Macedon Ranges Shire Council in 2020, the Committee were kept up to date with the responses taken and any new and evolving risks as a result of the pandemic response. This included updates on:

- Closure of facilities
- Alternative Working Arrangements for Staff
- Working for Victoria Grant Agreement
- Impact on the Budget, Strategic Resource Plan and Council Plan
- Impact on the delivery of Council Services.

The Committee noted the information provided and the evolving risk environment resulting from COVID-19.

### **2.2 2020/21 Budget, Strategic Resource Plan and Council Plan**

At the May 2020 meeting the 2020/21 Budget, Strategic Resource Plan and Council Plan were presented and discussed. The Committee noted the overall documents for 2020/21 were comprehensive and provided the following specific feedback:

- the draft information presented and provided was sound and satisfactory but with the understanding that changes could be made to the draft document in response to COVID-19;
- that due to the effect of COVID-19 and complexity of the current environment (pending elections and Local Government Act Reform) the responses to date by Council are mature and steady; and
- that it is difficult to make precise predictions in the current environment which is dynamic and rich with new and evolving risks.

### **2.3 Risk Management**

Throughout 2020 the Committee continued to focus on the key risks of Council via the delivery of the Strategic Risk presentations which were presented to the Committee at each meeting. The final presentations for the program were concluded at the September 2020 meeting. The Committee also received a Risk Management Report at the August 2020 meeting providing an update in relation to the significant risks of Council.

## **2.4 Ethical Environment Update**

At the September 2020 meeting of the Audit and Risk Committee, the Committee was provided with an update on the ethical environment. The update highlighted a number of matters including:

- The 2019 staff survey;
- A review of organisation values;
- The implementation of a Leadership Development program;
- Bullying and Sexual Harassment statistics; and
- The Gender Equality Workforce Challenge and gender audit.

## **2.5 Emergency Management Plan**

At the September meeting the Committee was presented with the updated Municipal Emergency Management Plan prior to adoption by Council. The Committee provided the following feedback:

- the Committee requested to be provided with clarification as to who has the responsibility of maintaining the vulnerable persons register;
- the population data required update from 2016 to 2019 statistics; and
- to include information in relation to associated committees.

## **2.6 New Local Government Act and assessment of the control environment in relation to Council's Governing Principles**

At the March 2020 Committee meeting the Committee was provided an update of the preparation for the new Local Government Bill becoming the *Local Government Act 2020*.

In addition, at the December 2020 Committee meeting the Committee was provided with a report detailing the Council's compliance with the Governance Principles. The report known as the 'Governance Schedule' provides the Committee with the assurance that Council is complying with the governing principles including the numerous statutory obligations under the *Local Government Act 1989* and the *Local Government Act 2020 (the 'Act')*.

## **2.7 2019/20 Annual Report**

At the September 2020 meeting the Audit and Risk Committee was provided with a draft version of the 2019/20 Annual Report. The Committee provided the following feedback:

- Update the position of the acknowledgement of country within the 'About us' section of the Annual report to be the opening statement; and
- Check the endorsed date with Legal and Corporate Governance Department which was referenced

in the Audit Committee section.

## **2.8 Charter Review**

The Committee spent a considerable amount of time in 2020 reviewing and updating the Charter to ensure compliance with the LGA 2020. The final draft of the Charter was endorsed by the Committee at the July 2020 meeting. The revised Charter was finalised for presentation to Council at the 26 August 2020 meeting. A number of key changes were included in the Charter, these include:

- The change of title of the Committee to the Audit and Risk Committee in line with the Local Government Act 2020;
- The replacement of the Director Corporate Services with nominated officer by the Chief Executive Officer;
- Updates to the membership section to reflect the changes that have occurred since the preparation of the 2018 Charter and to provide for a process to follow when an Independent Member becomes ineligible or resigns; and
- Changes required to the Charter that reflect the requirements for the Committee as a result of the Local Government Act 2020.

The revised charter was endorsed by Council at the 26 August 2020 meeting.

## **2.9 Review of reimbursement of expenditure for Councillors and Delegated Committees**

Under S40 (2) of the *Local Government Act 2020* the Audit and Risk Committee must be provided with details of all reimbursements of expenses of Councillors and members of delegated committees. At the December 2020 Committee meeting, the Committee was provided with a draft report of this expenditure, for their feedback and information.

## **2.10 Asset Accounting and Valuation Procedures Review**

At the May 2020 meeting of the Audit Committee, the Asset Accounting and Valuation Procedures were presented to the Committee as part of the review process. The Committee noted the revised procedures.

## **2.11 Procurement Policy Review**

At the May 2020 meeting of the Audit Committee an officer conducted review of the procurement policy was provided to the Committee to seek additional feedback. As part of this update the Committee noted consistent with Section 6.4 of the Procurement Policy that there may be a future possible breach of the Local Government Act as a result of potentially exceeding cumulative thresholds. This expenditure relates to the engagement of CT Management Group Services in response to resourcing the

management of the COVID-19 pandemic. The Committee noted the draft policy and the possibility of a future breach. The breach was subsequently reported at the August Committee Meeting.

### **2.12 Fund Handling Policy Review**

At the March 2020 meeting the revised Fund Handling Policy was presented. The Committee provided the following feedback:

- The terminology be reviewed to ensure consistency with the change in policy title from Cash Handling Policy to Fund Handling Policy; and
- that it be clarified whom third parties are i.e. payment gateways;
- That the wording be reviewed to ensure clarity of application for users.

### **2.13 Community Engagement Policy Review**

At the September Committee meeting the Committee was presented with the Draft Community Engagement Policy. The Committee received a copy of the policy to provide any feedback prior to the policy being released for public consultation. The Committee noted the draft policy.

### **2.14 Loan Guarantee and Community Contributions Policy**

At the August 2020 meeting the Committee was provided with an opportunity to provide feedback on the Draft Loan Guarantee and Community Contributions Policy. The Committee noted the Manager responsible required updating and requested the information relating to 'not-for-profit' and unincorporated groups be made clearer in the policy.

### **2.15 Leasing and Licencing Policy**

At the August 2020 meeting the Committee was provided with an opportunity to review and provide feedback on the Draft Leasing and Licencing Policy. The Committee noted this policy.

### **2.16 Public Interest Disclosure Policy and the Public Interest Disclosure Procedure:**

At the December 2020 meeting the Committee was provided with an opportunity to review and provide feedback on the Draft Public Interest Disclosure Policy and Procedure which replaces the Councils existing Protected Disclosure Policy.

## **2.17 Chief Executive Officer's Report**

At each meeting, as and when required, the Chief Executive Officer verbally updated the Committee on whether there had been any changes to laws and regulations, which will have a major impact on our strategic direction and whether there had been any issues, which will affect our financial well-being. For 2020 the Chief Executive Officer provided updates on the COVID-19 response and the impact on Council services and related financial impacts as noted in the COVID-19 Pandemic update.

## **2.18 Committee Planning**

During 2020, the Committee considered its annual and multi-year plan. The Plan outlines topics to be targeted for discussion by the Committee and provides indicative timelines for the discussion of topics. During 2020 the majority of topics outlined in the Plan as consider at the September 2020 Committee meeting were considered as scheduled. The annual and multi-year work plan was reviewed at the September 2020 meeting and revised to reflect the updated requirements including the change to become the Audit and Risk Committee from 1 September 2020 as per *the Local Government Act 2020*. As part of this process the annual and multi-year work plan was updated to reflect the requirements as outlined in the revised Charter.

### 3. Overall Conduct

During 2020, the Committee discharged its duties at the following meetings:

- Wednesday 4 March.
- Wednesday 6 May.
- Monday 20 July
- Thursday 13 August.
- Thursday 17 September.
- Thursday 15 October.
- Thursday 3 December.

Here is a summary of the overall conduct and administration of these meetings:

#### **Agenda:**

- a. The Committee meeting agenda included all the appropriate items, which are identified in the Audit and Risk Committee Strategic Internal Audit Annual Plan.
- b. Committee members were able to nominate any matters that they wished to be included on the agenda.
- c. The Committee meeting Agenda and Attachments were prepared by the Director Corporate and Community and were circulated in the week prior to each meeting.
- d. There was the opportunity available to members to obtain any additional information they may have required prior to the meeting.

#### **Conduct of meetings:**

- e. Meetings commenced on time and matters were productively and promptly concluded usually within three hours.
- f. Sufficient time was allowed to satisfactorily address complex matters.
- g. During 2020 the Committee continued peer reviews of meeting practices.

#### **Minutes:**

- h. Minutes of Committee meetings were prepared and distributed following each meeting.
- i. The Minutes were distributed to Committee members, Councillors, Auditors, CEO, Directors and Managers.
- j. The Minutes were approved at the following meeting.


#### **Communication with the Council:**

- k. The Council is available for consultation with members of the Committee at any time during the year but was neither requested nor required.
- l. Councillors, whom are not Committee members, were able to attend Committee meetings as

observers, and a number of Councillors did so.

- m. A written report of each Committee meeting was included on the Agenda for the next available Council meeting and recorded in the Council meeting minutes.
- n. The Committee produced and presented its Annual Report to Council.
- o. The Committee Chair participated in the process to appoint a new Independent Member.
- p. The Committee Chair acted as an independent observer in the selection of an Acting Chief Executive Officer.
- q. The Committee Chair acted as an independent observer in the preliminary stages of the selection of a permanent Chief Executive Officer.

## 4. Self-Assessment of Committee Performance

The chart below is based on the template provided in “Audit Committee’s – A Guide to Good Practice for Local Government”. The Committee reviewed the format and structure of the assessment chart in 2018. The Committee assessment of its 2020 performance is represented by .

Audit and Risk Committee Performance has been:	Below Expectations		Meeting Expectations		Exceeding Expectations	
	1	2	3	4	5	6
<b>1. The Audit and Risk Committee has monitored (and reported to Council) on systems and activities to ensure there is:</b>						
1.1 Credibility and objectivity of financial and operational reporting					★	
1.2 Appropriate management of financial and other risks				★		
1.3 Effective Systems for internal controls and the protection of the Local Governments Entities assets				★		
1.4 Effective Corporate Governance				★		
1.5 Effective ICT Governance			★			
1.6 Management of, and governance of the use of – data, information and knowledge				★		
1.7 Compliance with applicable laws and regulations			★			
1.8 The use of best practice guidelines for accounting				★		
1.9 Effective and efficient internal audit functions				★		
1.10 Effective and efficient external audit functions				★		
1.11 The level and effectiveness of appropriate Business Continuity and Disaster Recovery Planning				★		
1.12 Maintenance and fostering of an ethical environment within the organisation, such as Induction, Code of Conduct, Performance Review, Staff Development, Protective Disclosure and the Prevention of Fraud and Bullying			★			
<b>2. The Audit and Risk Committee has ensured it has received the information, presentations, or explanations it considers necessary to fulfil its responsibilities</b>				★		
<b>3. The Audit and Risk Committee has worked with management and the Internal Auditor to ensure there is a framework for monitoring the multi-dimensional elements of corporate governance</b>					★	
<b>4. The Audit and Risk Committee has reviewed the effectiveness of management information including financial controls and reporting</b>					★	



Audit and Risk Committee Performance has been:	Below Expectations		Meeting Expectations		Exceeding Expectations	
	1	2	3	4	5	6
<b>Score:</b>						
<b>5. The Audit and Risk Committee has:</b>						
5.1 Gained a level of assurance that systems are in place to identify high risks				★		
5.2 Ensured internal audits are scheduled in accordance with risk assessments				★		
5.3 Reviewed the governance control environment to ensure it was consistent with Council's governing principles.				★		
5.4 Reviewed the effectiveness of internal controls and systems as reported in internal audit reports and the Auditor General's Closing Report				★		
5.5 Made recommendations to address internal control deficiencies				★		
<b>6. The Audit and Risk Committee has reviewed reports outlining:</b>						
6.1 Developments and changes in the various rules, regulations and laws which relate generally to business operations as reported in internal audit reports and the Auditor General's Closing Report					★	
6.2 Measures to ensure Council's compliance with legislation				★		
<b>7. The Audit and Risk Committee has:</b>						
7.1 Reviewed the performance of internal audit				★		
7.2 Reviewed the effectiveness of the financial and performance audits				★		
7.3 Provided a structured reporting line for the auditors				★		
7.4 Monitored the delivery of the approved Internal Audit Plan (currently a three year plan)				★		
7.5 Reviewed and approved the Audit Committee Annual Plan				★		
7.6 Met the objectives outlined in its annual plan				★		
<b>8. Meetings</b>						
8.1 Committee members have attended meetings on a regular basis					★	
8.2 Meetings have been conducted in accordance with the agenda issued				★		
8.3 Meeting agendas and supporting papers have been well structured and well written					★	
8.4 Meetings have been conducted to allow for full participation by all members					★	
8.5 Meetings have allowed Committee members to raise any issue they believe relevant					★	
8.6 Meetings have been conducted to allow for open, frank and robust discussion of all matters raised					★	

