

COUNCIL REPORT – SEPTEMBER 2021 PERFORMANCE AND INNOVATION DIRECTORATE

SOUTH GIPPSLAND SHIRE COUNCIL AUDIT & RISK COMMITTEE CHAIR'S REPORT TO COUNCIL – 2020 / 2021

INTRODUCTION

The Committee's objective is to provide appropriate independent advice and recommendations to Council on matters relevant to the Committee's Charter to support Council in discharging its oversight responsibilities. The Committee is also responsible for ensuring that Council's policies and procedures comply with the over-arching Governance Principles, the relevant Acts, Regulations and any Ministerial Directions. The Committee acts in this capacity by monitoring, reviewing, endorsing and advising on matters as set out in the Audit and Risk Committee Charter, developed in accordance with Section 54 of the Local Government Act 2020.

The Committee is an advisory committee to the Council and does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any delegated financial responsibility. Neither does the Committee have any management functions and is therefore independent of management.

In addition, the Committee is also guided by an Audit Policy that was adopted by Council on 28 August 2019. Both the Audit Policy and charter are published on Council's website.

NEW REPORTING OBLIGATIONS

The Audit and Risk Committee (Committee) exists and functions as required by The Local Government Act 2020 (Vic) (the "Act"). The Committee's objectives, authority, composition, tenure, roles and responsibilities along with reporting, administrative and governance arrangements are detailed in the Audit and Risk Committee Charter updated and adopted by Council on 26 August 2020.

Under the Act, the Committee is required to undertake an annual assessment of its performance and provide it to the CEO for tabling at the next ordinary meeting of the Council. Key recommendations from the Committee's performance review was that the Audit & Risk Committee Charter be updated to reflect the inclusion of the following:

- Internal auditor contract appointment recommendations to Council should be in the remit of the A&RC as follows:
 - New Internal Auditor contract – Audit & Risk Committee Chair should be on the selection panel and input to the subsequent recommendation to Council for decision; and
 - In the event of an Extension to Internal Auditor contract – Audit & Risk Committee should make a recommendation/input to Council for decision

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The committee has been assessing its own performance on an annual basis and is required to present an annual (Chair's) report to Council from FY 2020/21.

The Committee is also required to prepare a biannual Audit and Risk Report that describes its activities and includes its findings and recommendation. A copy of this report must also be provided to the CEO for tabling at the next council meeting. This report will be accompanied by the relevant minutes of the most recent Audit Committee meeting.

The Chairman of the Committee reports annually to Council on the following matters –

- A summary of the work of the Committee performed to discharge its responsibilities
- A summary of the Council's progress in addressing the findings and recommendations made in internal, external and Parliamentary Committee reports; and
- An overall assessment of the Council's risk, control and compliance framework, including details of any significant emerging risks or legislative changes impacting Council
- A summary of Committee's performance review

COMMITTEE MEMBERSHIP

The Committee consists of four members appointed by Council; three independent members and one Administrator. The Chair Administrator is an invited Observer at meetings and has the right to speak. All independent members may serve a maximum of two consecutive terms of three years, subject to satisfactory performance. The Chair of the Committee is an independent member.

Councillor Membership

At the Ordinary Council Meeting on 28 August 2019, Administrator Rick Brown was appointed to Committee as the sole Councillor member until the next Council election, being held in October 2021.

Independent Membership

The current Independent Members are –

- Mr. Chris Badger – appointed by Council on 24 October 2018 for an initial three-year term commencing on 1 December 2018 and concluding on 30 November 2021. He was appointed as Committee Chair at the 26 August 2020 Council Meeting and at the 15th September 2021 Council meeting was appointed for a second three year term to conclude 30 November 2024;
- Mr. Homi Burjorjee – appointed by Council on 22 February 2017 for an initial three-year term concluding in February 2020 and extended in 2020 for a further three-year term, concluding in February 2023.
- Ms. Jen Johanson – appointed by Council on 01/11/2020 for an initial three-year term concluding on 31/10/2023

The Committee met four times in 2020/21 –

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- 8 September 2020
- 8 December 2020
- 9 March 2021
- 8 June 2021

A quorum of Councillor and Independent Members was achieved for all meetings as outlined in the following table –

Member	Meetings Attended	Meetings Eligible
Independent Members		
Mr. Chris Badger (Chair)	4	4
Mr. Homi Burjorjee	4	4
Ms. Jen Johanson	3	3
Council Members		
Mr. Rick Brown	4	4

Council's Internal Auditor, Richmond Sinnott and Delahunty ("RSD"), Chief Executive office (or Acting CEO) attended all Committee meetings. Other management representatives attended as required to present reports.

External Auditors from the Victorian Auditor General Office (VAGO) attended the 8 September 2020, 9 March 2021 and 8 June 2021 meetings to present the audit plan and independent audit report.

Committee Minutes Reported to Council

Minutes of each Committee meeting were presented to Council, at the next practicable Ordinary meeting of Council, for consideration and adoption.

Internal Auditor

The process to exercise the first and final three-year term under the contract with RSD was undertaken and was intended to conclude on 30 June 2021. Council Officers have engaged RSD for an additional year to facilitate Council running a competitive market process for ongoing audit services and ensuring Council is not without independent internal audit services until that process has been completed.

RSD attends each Committee meeting to report on the status of the internal audit program, to provide an update on the implementation of audit recommendations and to present findings of completed reviews. The responsible Director for each area audited attends the Committee meeting to respond to questions in relation to the audit. All audit issues identified are risk rated. Key findings (as per Charter) are identified in the A&RC meeting minutes, recommendations are assigned to the responsible manager and tracked in Council's Internal Audit Action Plan.

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The Internal Audit Plan for 2020/21 was completed with the following reviews conducted:

Capital Works Program Audit Actions update	December 2020
Data Analysis – Fraud Risk & Procurement	March 2021
IT General Controls	June 2021

An item of note for continual improvement of the Committee function is to have Council Officers report on actions in subsequent meetings to ensure adequate follow up and implementation of audit findings.

External Auditor

Council's External Auditor, VAGO, attended the 8 September 2020, 9 March 2021 and 8 June 2021 meetings to prepare and present the audits for the Financial and Performance Statements.

VAGO have monitored the finances and performance across the year through the Committee, which has ensured ongoing transparency to Councils external audit agency. VAGO have also contributed in areas such as the IT General Controls Internal Audit which overlapped with the findings from VAGO's own external auditing. The positive findings of the previous annual year External Audit Reporting have been repeated this year.

In the audit of the Annual Finance and Performance Reports for the financial year, VAGO reported an unqualified outcome with no significant or material matters of concern; some minor procedural matters noted only. VAGO were comfortable that all risk areas have been adequately considered and will be issuing the final summary report to Council approximately late September.

SUMMARY OF THE WORK OF THE COMMITTEE

The Committee meets on a quarterly basis to consider those matters within the scope of its Charter. To assist the Committee's deliberations and oversight at each meeting, a senior manager or their representative provides a detailed overview of key or emerging risks within their portfolio and the mitigation steps being taken to keep these risks to within acceptable levels

Meeting Date	Key Presentations
8 September 2020	OH&S and Return to Work (supporting internal audit report)
8 December 2020	Capital Works Program
9 March 2021	Procurement Data Analytics
8 June 2021	Strategic People and Culture Report

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2020/21 Highlights

Council undertook an important structural change to governance in developing and adopting the new Risk Framework. The changes in this, and the complementary change in fostering an engaged risk culture more broadly across the organisation, is a valuable maturing of governance and has been strongly supported by the Committee. Implementation of this framework will more clearly align Strategic Risks to Council Objectives and provide greater clarity and engagement in the operational areas in identifying and actively managing risks, and provide a robust system for the Council and the Committee to provide oversight to ensure risk is managed effectively and efficiently.

The progressive changeover of *Local Government Act 1989 and 2020* (LGA) has been very capably handled by the organisation as it saw through the various impacts to policies and practices. Each phase of adoption was well informed and prepared, and therefore occurred with minimal disruption and full compliance to implementation timeframes and requirements. The change in LGA also necessitated a change in the Committee Charter which was updated accordingly and adopted by Council at the Council meeting of 26 August 2020.

Over a number of years there has built up a list of recommendations (actions) of various internal audit reports which have been accepted by officers but not implemented. It has not been possible to address this issue previously because of conflicting priorities. However, the Committee and the officers were able to address the issue in the latest financial year and have identified and prioritized those recommendations that when implemented will provide the greatest value. A timetable has been established for the implementation of those recommendations. COVID-19 altered the course of every business and household and created substantial need for change through the entirety of the 2020/21 financial year. The Committee noted how smoothly this occurred for South Gippsland Shire Council with an IT infrastructure that capably supported the transition to home-based operation for office staff without compromising function or security, that finances were adopted to support a \$2 million Community Support Package, and increased areas of risk such as reduced procurement and financial oversight were anticipated and monitored to ensure financial probity and integrity. All of this was achieved whilst minimising health and safety risk for staff and service providers to as low as reasonably practicable.

Overall assessment of Council's risk, control and compliance framework

The Committee's overall assessment is that, based on information received by the Committee (including from VAGO and Council's appointed internal auditors), Council is continuing to enhance its identification, monitoring and management of its key strategic and operational risks in a constrained operational (COVID-19 impacted) and financial environment.

It is the view of the Committee that the governance culture of the Council is supporting the development of a robust risk, control and compliance framework which continues to strengthen and adapt to changes in the Council's operations.

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The Committee looks forward to the adoption of a risk appetite statement and risk tolerances which will enable effective monitoring of the implementation of the risk management strategy and provide oversight to ensure that risk is managed effectively and efficiently.

Committee Performance

The committee performance assessment (refer appendix 1), was strongly positive with 19 of the 30 elements rated above adequate by more than half of the committee. 10 items of the 30 had some less than adequate responses and these have been discussed during the course of committee meetings with opportunities for improvement being discussed openly. Overall the committee performance result demonstrates open dialogue and communication between the Committee, Council management and officers, with all parties keen to seek continual improvement.

CHAIR'S CLOSING REMARKS

I would like to thank the management team for their support and diligence in the running of the Committee and I thank my colleagues, the independent members and Administrator Brown for their contribution to a strong Internal Audit Committee.

Administrators should note that during the In-Committee meetings held with Internal and External Auditors, no significant matters of concern were raised. Throughout this year, a focussed effort has gone into working through backlogged actions from previous internal and external audits and I wish to acknowledge the efforts by Council officers, management and the committee in this important undertaking to ensure the value of those audits is realised.

I note especially the report from VAGO that a clean unqualified external audit result has been achieved. This is particularly pleasing in the context of the significant impost that COVID-19 restrictions has placed on the organisation and auditors. Well done to all.

I wish to acknowledge and thank my fellow committee members including Homi Burjorjee, Council representative Rick Brown, and coming into the role through this year, Jenny Johanson. These members of the Committee each bring a deep understanding and experience of the Audit and Risk function which adds to ability and credibility of the Committee in achieving its chartered objectives.

I thank Council Administrators for the opportunity of serving as Chair of this Committee since my appointment to the role on 26/8/2020. It has been a rewarding experience and a privilege to interact with such knowledgeable and dedicated individuals from Council Administrators, Council staff and my fellow independent members. I look forward to continuing to serve Council in 2021/22 (subject to re-appointment).

Chris Badger

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APPENDIX 1 – AUDIT AND RISK COMMITTEE PERFORMANCE ANALYSIS 2020

