

## South Gippsland Shire Council Audit and Risk Committee Chair Report

September 2021 – October 2022

### INTRODUCTION

The Audit and Risk Committee (the Committee) is established pursuant to Section 53 of the *Local Government Act 2020* (the Act) to support Council in discharging its oversight responsibilities related to financial and performance reporting, risk management, fraud prevention systems and controls, internal control, assurance activities and compliance with policy and legislation. 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 Council and does not have executive powers or authority to implement actions in areas over which management has responsibility. The Committee does not have any operational function and is therefore independent of management.

Under section 54 of the Act, the Committee is required to:

- “ (a) prepare a biannual audit and risk report that describes the activities of the Audit and Risk Committee and include its findings and recommendations; and*
- (b) provide a copy of the biannual audit and risk report to the Chief Executive Officer for tabling at the next Council meeting”*

Whilst the Act requires two biannual audit and risk reports per annum, this report encompasses the period of September 2021 to March 2022 as well as April 2022 to October 2022 in order to provide an annual context for the reader.

In order to comply with these requirements, this report includes:

- 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
- 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 annual performance review

### SUMMARY OF WORK PERFORMED

The Committee meets at least four times a year, with the authority to convene additional meetings as circumstances require. The meetings are structured as to consider those matters within the scope of the Charter. These include:

- Financial and Performance Reporting
- Internal Controls and Risk Management

- Fraud Prevention Systems and Controls
- Internal and External Audit
- Compliance and Governance including policy and procedure reviews

The Committee met on the following dates during this period:

- 14 September 2021
- 14 December 2021
- 1 March 2022
- 14 June 2022
- 7 October 2022

Some of the key items reviewed during this period included:

- Recommended the Annual Performance and Financial Statements for 2020/21 and 2021/22 to Council
- Completion of detailed review of Council's Strategic and Operational Risks
- Receipt of quarterly financial and performance reports
- Received a detailed review from Marsh Advisory of Council's Insurable Risk Profile
- Received the annual People and Culture report that provides a strategic view of the people and priorities and related projects for the organization
- Received updates from VAGO regarding the interim and final audit visits for 2020/21 and 2021/22

### **COMMITTEE MEMBERSHIP**

The Audit and Risk Committee Charter requires the Committee to consist of four members appointed by Council – three independent and one councillor (Note -Councillor Sarah Gilligan commenced December 2021). The mayor and monitor are invited as observers to meetings and have the right to speak. All Members may serve a maximum of two consecutive terms of three years, subject to satisfactory performance.

The Chair is an independent member appointed by Council for one year term. All Committee members are expected to prepare for and participate in each meeting, in person or by means of telephone or video conference. Due to the ongoing pandemic, all meetings were either virtual or hybrid with some members in attendance in Council buildings.

The current independent members' tenure dates:

ARC - TENURE	Committee Member	Commenced 1st Term	Completed 1st Term	Commenced 2nd Term	Completed 2nd Term
	Chris Badger	1 December 2018	30 November 2021	1 December 2021	30 November 2024
	Homi Burjorjee	22 February 2017	24 February 2020	24 February 2020	24 February 2023
	Jen Johanson	23 November 2020	23 November 2023		

A quorum of members (three) was achieved for all meetings as outlined in the following table.

Member	Meetings Attended	Meetings Eligible
<b>Independent Members</b>		
Mr Chris Badger (Chair)	4	4
Mr Homi Burjorjee	4	4
Ms Jen Johanson	4	4
<b>Council Members</b>		
Mr Rick Brown (Administrator)	1	1
Cr Sarah Gilligan	3	3
<b>Observers</b>		
Ms Julie Eisenbise (Administrator Chair)	1	1
Cr Mohya Daview (Mayor)	3	3
Ms Prue Digby (Monitor)	3	3
Cr Jenni Keerie	2	
<b>Internal Auditors</b>		
RSD: Kathie Teasdale/ Paul Harrison		
<b>External Auditors</b>		
Jung Yau (Audit Manager)	3	4
Sanchu Chummar (Acting Sector Director)	2	2
Travis Derricott (Sector Director)	1	2

### INTERNAL AUDIT

Council's contract for Internal Audit services with RSD had been in place since July 2016 and expired in June 2022 following a 12-month contract extension. This extension allowed for an open tender process and to ensure that Council was not without independent internal audit services until that process has been completed.

Council's Request for Tender RFT/316 – Internal Audit services (RFT/316) was advertised in The Age (12 February 2022) and in Council's Noticeboard section of the local papers (15 February 2022) with applications closing on 28 February 2022. Officers also directly contacted agencies known to the Committee and Management as having expertise providing Internal Audit Services. The submitted tenders were assessed in accordance with the criteria specified in the tender documentation by the evaluation panel consisting of the Mayor, CEO, Audit and Risk Committee Chair and the Coordinator Procurement.

A report to Council was prepared and Council, in a closed meeting on 18 May 2022, resolved to award the contract to Crowe Australasia to start in July 2022 and finalise in 30 June 2026 with a one year extension available.

The Internal Auditors attend 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 Committee meeting minutes, recommendations are assigned to the responsible manager and tracked in Council's Internal Audit Action Plan.

### INTERNAL AUDIT PROGRAM

The following internal audits (all conducted by RSD) were considered during the period September 2021 – November 2022.

Meeting Date	Key Presentations
14 September 2021	Waste Management – Fees and Charges
7 October 2022	Community Satisfaction, Customer Service and Complaints Management
7 October 2022	Records Management

In terms of setting the new internal audit program, the Committee endorsed the following approach:

- A Strategic Risk review facilitated by Crowe with all Councilors, the Executive Leadership team and Committee members.
- This review is to ensure that Council's strategic risks are aligned with the new Council Plan as adopted in June 2022.
- The results of the review are to inform a proposed Internal Audit Program for the next three years to be endorsed by the Committee.

At the time of writing this report, two internal audit scopes will be considered by the Committee at the October meeting – Privacy and Councillor Compliance with the Act. These internal audits had been previously discussed with the Committee and will proceed to ensure that the internal audit function is not delayed due to the drafting of the new Internal Audit Program.

Number of Internal Audit actions	34
Number completed	20
Number still in progress	14
Number overdue	14

### EXTERNAL AUDIT

Council's External Auditor, VAGO, attended the Committee meetings in September 2021, December 2021 and March 2022 to prepare and present the audits for the Financial and Performance Statements (as previously reported).

VAGO have monitored the finances and performance across the year through the Committee, which has ensured ongoing transparency to Councils external audit agency.

Activities conducted with the Committee and VAGO officers this year included:

- Received the Draft Financial Management Letter/ Closing report for the 2020/21 annual audit;
- Reviewed and endorsed the scope of the external audit plan in March 2022(as previously reported);
- Received the Draft Interim Management Letter in June 2022 (provided in hard copy as VAGO officers were unable to attend the meeting); and
- Reviewed management's progress against open action items.

VAGO have also contributed by providing regular status reports for activities across the sector. At the time of drafting of this report, the external audit was underway for the 2021/22 financial year. It is expected that the positive findings of the previous annual year External Audit Reporting will be repeated this year.

<b>Number of External Audit actions</b>	<b>12</b>
<b>Number completed</b>	<b>6</b>
<b>Number still in progress</b>	<b>6</b>
<b>Number overdue</b>	<b>6</b>

### **2021/22 HIGHLIGHTS**

South Gippsland Shire Council welcomed the return of elected Councillors in November 2021 following a period of Administration that began in June 2019 when the previous Council was dismissed. During this period of administration, Council made substantial progress towards restoring good governance practices and implementing the recommendations of the *Commission of Inquiry into South Gippsland Shire Council Report 2019*. Much of this progress can be found in the minutes from the Council meetings during this time as the Administrators provided updates to the Community.

A comprehensive induction program was rolled out with the newly elected Councillors that was designed to inform them on their role as Councillors in relation to good governance, their statutory requirements, Council Meeting protocols, media training along with plenty of opportunities to discuss questions and meet with senior management.

In line with the requirements of the Act, the development of integrated strategic plans simultaneously over 6 months culminated in their adoption in June 2022. These included the *Council Vision 2040*, the *Council Plan 2022 – 2026*, the *Long Term Financial Plan*, *Revenue and Rating Plan*, *Annual Budget* and *Asset Plan*.

The pressures of the global pandemic continued through 2022 and, most notably in illness of staff, Councillors and other related parties which contributed to a need to continue to approach tasks and projects with agility. The effects of the war in the Ukraine and supply chain issues are being felt across our nation, and at Council this has been reflected in increased costs of construction and substantially higher prices for fuel. I am pleased that during these unprecedented and challenging times, Council has continued to deliver its services and initiatives whilst maintaining a healthy financial position.

### **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 (COVID19 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.

The Committee looks forward to the further development of risk appetite statements and risk indicators, 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 annual Committee self assessment was completed this year via an electronic survey issued to all members of the Committee and Cr Mohya Davies (Mayor), Council Monitor (Prue Digby) and the Council Executive Leadership team. The questionnaire provided this year was directly aligned with the Act requirements for an Audit and Risk Committee.

The results of the survey indicated:

The 2022 ARC Self Assessment Survey summarises the Committee's primary strengths as -

- The ARC Charter provides a strong framework in detailing the responsibilities of the Committee.
- The ability of the Committee to analyse and critically evaluate information presented to it in the form of agendas and supporting papers.

Areas for improvement were noted as:

- Review of the Charter wording, particularly on values and code of Conduct
- Structure of the Committee to be increased to five members with two Councillors being appointed and the Mayor attending as an observer

- Clarify the process for Committee members to access advice, knowledge and/or training

**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 and Cr Sarah Gilligan for their contribution to a strong Internal Audit Committee.

Councillors 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 finalising the development of a strong risk program as well as streamlining elements of the Committee meetings.

I understand, based on information from Management, that a clean unqualified external audit result is expected. This is particularly pleasing in the context of the significant impost that CV19 restrictions and resourcing issues has placed on the organisation and auditors. Well done to all.

I wish to acknowledge and thank my fellow committee members including Homi Burjorjee, Jenny Johanson and Council representative Cr Sarah Gilligan. 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 2022/23

Chris Badger