

Meeting held on Wednesday 30 August 2023 at 10:45am at the Civic Centre, Altona
Pre-meeting in camera at 10.30am

Voting Members in attendance:

John Watson	Independent Member - Chair
Lisa Tripodi	Independent Member
Cr Jonathon Marsden	Councillor
Cr Antoinette (Tony) Briffa	Mayor (in proxy)

Others in Attendance:

Aaron van Egmond	Chief Executive Officer
Andrew McLeod	Director Corporate Services
Diane Eyckens	Manager Corporate Integrity and Legal Counsel
Hamish Munro	Chief Financial Officer
David Hayden	Financial Accountant (item 7)
Tim Fairclough	Partner – BDO (item 7)
Zaryab Hyder	Director – BDO (item 7)
Graham Noriskin	Executive Director – Pitcher Partners (item 9)
Richard Wilson	Senior Manager – Pitcher Partners (item 9)
Neville Smith	Senior Advisor Property and Insurance (item 10.1.2)
Irene Hills-Jones	Governance and Business Support Officer (minutes)

PRE MEETINGS IN CAMERA

The Audit and Risk Committee members held separate in camera meetings with:

- External Auditors
- Internal Auditors
- Chief Executive Officer

PROCEDURAL MATTER: ELECTION OF AUDIT AND RISK COMMITTEE CHAIR

The Chief Executive Officer called for nominations for the position of Chair of the Audit and Risk Committee in accordance with Clause 3 of the Audit and Risk Committee Charter. John Watson was nominated, and all members voted in favour. The Committee acknowledged and thanked Lisa Tripodi, the outgoing Chair, for all her work over the last 4 years.

DECISION:

The Audit and Risk Committee recommends to Council:

- **That Mr John Watson be appointed to the position of Chair of the Audit and Risk Committee.**

1. WELCOME AND ACKNOWLEDGMENT

The Chair welcomed all those present and acknowledged the Bunurong People of the Kulin Nation as the Traditional Owners of these municipal lands and waterways, and paid respects to Elders past, present and emerging.

2. APOLOGIES

Iqbal Halim, Independent Member
Cr Peter Hemphill, Councillor

3. CONFLICTS OF INTEREST

No conflicts of interest declared.

4. CONFIRMATION OF MINUTES

The minutes of the meeting held on 24 May 2023 were confirmed with no amendments.

5. ACTION ITEMS

The Chair requested a completion date be stated for Action Item 1 concerning actions to be taken by Council in relation to WorkSafe's psychological impact changes.

The Chair noted that Action Item 2 concerning the process for reporting strategic risks to Council needs to be kept open as this requires further discussion.

Action Required	By
Action Item 1 requires a target completion date.	Deanne Colledge (OH&S Specialist)
Action Item 2 is to be re-opened for discussion at the next Audit and Risk Committee meeting.	N/A

6. AUDIT AND RISK COMMITTEE WORK PLAN

The Audit and Risk Committee Work Plan was taken as read.

7. EXTERNAL AUDIT

7.1 VAGO Interim Management Letter for the year ended 30 June 2023

The Chair welcomed Tim Fairclough and Zaryab Hyder from BDO, the external auditors acting on behalf of VAGO.

Tim Fairclough presented VAGO's Interim Management Letter in relation to the external audit on Council's Annual Financial Reports for the year ended 30 June 2023. No issues of significance had arisen during the planning or interim phases of the audit, and all items raised in the prior year audit have been resolved.

DECISION:

The Audit and Risk Committee noted the VAGO Interim Management Letter for the financial year ended 30 June 2023.

7.2 Draft Annual Financial Report for the year ended 30 June 2023

David Hayden introduced the Draft Annual Financial Report for 2022-23. Overall, the outcome has been positive, with improvements made to the 'end of year' processes, including more trained staff. Opportunities for further improvement will be considered over the next few months.

The following points were discussed by the Committee:

- Page 33, rates and charges: the variance of \$2.258 million is due to Council having little control over the rates income as this is based on property valuations that are determined by the Valuer-General. Hamish Munro explained that some councils have experienced problems due to over-reliance on supplementary rates, so a conservative approach is taken to avoid such an outcome.
- Page 33, non-monetary contributions: the variance of \$7.51 million in non-monetary contributions is due to difficulties in estimating the timing of when assets will be handed over by the developers. It is likely that similar issues will arise over the next few years. The Committee requested the commentary be amended to provide additional clarification and transparency for readers.

Action Required	By
Amend the commentary for non-monetary contributions to provide reasons for the variance.	David Hayden

- Page 34, item 4, operating grants: the variance of \$1.633 million in the prepayment of the 2023-24 Financial Assistance Grant was due to additional prepayments that were received in advance during the year.
- Page 34, item 6, monetary contributions: the commentary states that there were delays in the delivery of capital works, however the reasons for the delays are not provided.

Action Required	By
Amend the commentary for monetary contributions to provide reasons for the delays to delivery of capital works.	David Hayden

- Page 35, fixtures, fittings and furniture: the variance of \$2.149 million relates to items that were added to the asset register following the refurbishment of the Civic Centre. These were originally budgeted for under 'buildings' and later transferred to 'fixtures, fittings and furniture' when they were added to the asset register at the end of the financial year.
- Page 37: the inconsistent formatting of the subheadings 'Corporate Services', 'Sustainable Communities' and 'Infrastructure and City Services' has been identified and corrected in subsequent versions of the report.

- Page 44: the turnaround in 'cash and cash equivalents' and 'other financial assets' compared to 2022 was due to additional short-term investments during the current year.
- Page 53, work in progress: Project Managers review their portfolio at the end of each year and write off the value of works-in-progress (WIP) that are no longer going ahead. Three Finance officers worked with the Project Managers towards the end of the financial year to help reduce the WIP from the previous year. Going forward the Finance officers will meet with Project Managers on a quarterly basis.

Performance Statement for the year ended 30 June 2023

Lisa Tripodi congratulated the team for the fantastic work in bringing this report together, acknowledging the improvement from the previous year. It was noted this has also been recognised by the External Auditors in the VAGO Closing Report. Hamish Munro acknowledged that staff from Diane Eyckens' team were heavily involved in producing this report, noting that last year was the first time these staff members had produced this report. The Committee also commended the quality assurance process that is work-flowed via the Council's H2O platform.

The following points were discussed by the Committee:

- Page 83, animal management: in addition to stating the percentage figures, it would be useful to state the number of animal prosecutions to provide context.
- Page 84, governance: the comment states that 'satisfaction with Council decisions is consistent with previous years', however the figure has decreased from 58/59% to 56%. The CEO commented that the results from the Community Satisfaction Survey reflected a decrease in satisfaction in a number of areas, however this pattern is consistent across the sector. Andrew McLeod added that the decrease is not considered to be strategically significant, and that people's perception doesn't necessarily reflect performance. For example, satisfaction with local government has been affected by people's frustration over the COVID-lockdown, which was a Victorian government decision. The Chair suggested that a comment be added to clarify that while there has been a small reduction in overall satisfaction, this is not inconsistent with the broader pattern across the sector.
- Page 86, participation in the MCH service by Aboriginal children: in addition to stating the percentage figures, it would be useful to state the number of children to provide context.
- Page 87, Council decisions upheld at VCAT: in addition to stating the percentage figures, state the number of VCAT decisions upheld. Also consider stating the total number of decisions taken to VCAT to provide further context.
- Page 89, expenses per property assessment: given there has been an increase of 10% over the last year, consider including an explanation for this under the comments column.
- Page 92, unrestricted cash: following discussion of this issue at the last ARC meeting, the comments column should also state the percentage figure if investments were to be included.

Action Required	By
Update the Performance Statement to address the items identified in the August 2023 Audit and Risk Committee meeting.	Hamish Munro

DECISION:

The Audit and Risk Committee noted the draft Annual Financial Report including the draft Performance Statement.

7.3 VAGO Closing Report and Recommendation to Council

Tim Fairclough presented the VAGO Closing Report, this being the first year that BDO has performed the external audit for Hobsons Bay City Council on behalf of VAGO. Tim noted that a few items still need to be clarified before an unqualified opinion is provided.

The external audit focused on the financial report balances rated by VAGO as being at higher risk for material misstatement in the Annual Financial Report and Performance Statement.

The valuation reports, including a desktop review of a sample of drainage assets, were found to be reasonable. A \$10 million adjustment to Council's fixed asset register, due to the removal of a portion of land from the Jawbone Reserve, was brought to the auditor's attention during fieldwork. David Hayden was complimented on the method used to address this issue, and the report notes the matter as being immaterial in the context of the overall balance of infrastructure assets and audit materiality.

No significant matters were noted in relation to the auditor's assessments of developer contributions and government grants.

With regards to risks arising from the impact of changes in personnel, the report notes that Council has not experienced any significant disruption to the business or systems and processes during the year. Staff turnover is no higher than the sector average, which the Committee noted has risen to 20% following the COVID-19 pandemic.

A review of fraud related risks arising from potential management override of controls did not identify any significant matters to be reported, and no concerns were brought to the attention of the auditors during the audit.

Testing of the numerical formulae used to collate data for the performance statement, and review of the qualitative measures used, did not identify any significant matters to report.

Overall, the audit has not identified any irregularities of issues of non-compliance that require highlighting to the Audit and Risk Committee.

The Management Representation Letter was tabled, and the Committee noted this will be ready for endorsement in September 2023.

DECISION:

Subject to the suggested changes to the draft Annual Financial Report and draft Performance Statement, and further noting assurance by the External Auditors that a few small matters remaining to be finalised should not impede the

Committee in making a recommendation to the Council, the Audit and Risk Committee recommends to Council:

- 1. That the Annual Financial Report including the Performance Statement, together with the Interim Management Letter, Closing Report and Draft Management Representation Letter be received and noted.**
- 2. That Council record its approval in principle to the Annual Financial Report for the year ended 30 June 2023.**
- 3. That subject to the review of the final version of the Annual Financial Report, Council:**
 - Authorise the Chief Executive Officer, Chief Financial Officer (Principal Accounting Officer), the Mayor, Cr Antoinette (Tony) Briffa and Cr Marsden to certify the final versions;**
 - Authorise the Chief Executive Officer to send the Annual Financial Report to the Auditor-General;**
 - Authorise the Chief Financial Officer to implement any non-material changes as recommended by the Auditor-General, and provide a summary of such changes to the Audit and Risk Committee at its next meeting; and**
 - Authorise the Chief Financial Officer to make any material changes requested by the Auditor-General after discussion with the Chair of the Audit and Risk Committee before reporting to Council.**
- 4. That the Committee record its appreciation to the staff and auditors involved for bringing the year end reporting to a successful conclusion.**

Tim Fairclough expressed his appreciation for all the work by David Hayden and the Finance Team.

Tim Fairclough, Zaryab Hyder and David Hayden left the meeting at 12.01pm.

8. CONTROL FRAMEWORK

8.1 Chief Executive Officer's update

The CEO drew the Committee's attention to the recent discovery of buildings on Techno Park Drive, an industrial area next to a Mobil fuel storage site, being used illegally for residential purposes. The fuel storage site has been classified as a major hazard facility and the proximity of Techno Park Drive makes it unsafe for residential use. Notifications to vacate the properties have resulted in protests and media coverage, including some disingenuous messaging about the more vulnerable occupants and homelessness. Council is having to balance its role as the planning authority, with its role in providing services to support people who don't have appropriate accommodation. Although the easier option would be not to enforce the planning scheme for this particular site, Council is not prepared to do this. However, there are consequences for taking action and it is a challenging situation for all involved. The Chair recognised the Council's duty of care for the occupants and voiced the Committee's support of the actions taken. The Committee also noted the significant reputational risks to the organisation and the potential risk of litigation. The CEO and Andrew McLeod agreed to provide further information to the Independent Audit and Risk Committee Members to assist them in providing a formal statement of support on this matter.

Action Required	By
Further information to be provided to the Independent Audit and Risk Committee Members in relation to Techno Park Drive.	Aaron van Egmond Andrew McLeod

The CEO stated that Council prefers to hold Council meetings in person, however following concerns about safety prior to the August meeting, the forum was changed to an online meeting. The Audit and Risk Committee Chair highlighted the recent court clarification that it is legal for Council meetings to be held virtually; this is a decision for the organisation, and the Committee is supportive of the action taken to ensure the safety of staff.

Council is seeking feedback from the community and businesses in relation to a new framework for outdoor trading. Tension around the topic could lead to some potential reputational risks in the coming months.

With regards to the Enterprise Resource Project, the CEO noted the continued strengthening of the governance around these projects, with regular reporting to ELT. These reports are shared with the Audit and Risk Committee in the agenda papers.

DECISION:

The Audit and Risk Committee noted the CEO update.

8.2 Statutory Compliance update

The report was taken as read.

DECISION:

The Audit and Risk Committee noted the Statutory Compliance update.

8.3 Outstanding Audit Recommendations

The number of long-standing actions noted as 'high risk' was discussed. It was agreed that these should be reviewed by management and the internal auditors to determine whether they remain relevant in the context of any organisational changes that were made after agreeing to those audit actions.

Action Required	By
Long-standing audit action items to be reviewed for ongoing relevance by management and the internal auditors.	Andrew McLeod Pitcher Partners

DECISION:

The recommendations noted as completed by management were noted and the Audit and Risk Committee agreed that the items could be removed from the Outstanding Audit Recommendations listing.

8.4 Audit and Risk Committee Bi-Annual Report

The Committee agreed to amend the last sentence under Section 4.1 (on page 186) to *'The Committee recognises the legacy of previous Internal Audit recommendations and is encouraging the organisation to work with Pitcher Partners (Internal Audit) to take the necessary steps to conclude the outstanding action items'*.

Action Required	By
The Audit and Risk Committee Bi-Annual report is to be updated as agreed during the August meeting.	Lisa Tripodi

DECISION:

Subject to this amendment, the Audit and Risk Committee endorsed the Biannual Report (February to July 2023) to be presented at the next available Council Meeting.

8.4 Governance and Management Checklist

The checklist was taken as read.

9. INTERNAL AUDIT

9.1 Recent Issues Brief

The Recent Issues Brief was taken as read.

9.2 Internal Audit Program Update

- **Internal Audit Status Report**

The report was taken as read.

- **Capital Works Planning Internal Audit Scope**

The scope was taken as read.

DECISION:

The Audit and Risk Committee endorsed the Capital Works Planning scope.

- **Payroll Data Analytics Internal Audit Scope**

The scope was taken as read.

DECISION:

The Audit and Risk Committee endorsed the Payroll Data Analytics scope.

10. RISK MANAGEMENT

10.1 Risk and Insurance Report

The Committee discussed the unprecedented increase in insurance premiums, noting this is reflected across the sector. Andrew McLeod stated the draft budget initially identified \$560,000 to cover insurance premiums, however this was increased significantly to \$970,000. This is despite the organisation managing its claims better and there being no notable change to the service received. Alternative options are being explored in the event that premiums continue to escalate to unmanageable levels.

DECISION:

The Audit and Risk Committee noted the Risk and Insurance report.

10.2 Occupational Health and Safety Report

The report was taken as read.

DECISION:

The Audit and Risk Committee noted the Occupational Health and Safety report.

11. EXTERNAL ACCOUNTABILITY

11.1 Quarterly Financial Report – Period Ended 30 June 2023

The report was taken as read.

DECISION:

The Audit and Risk Committee noted the Interim Financial report for the year ended 30 June 2023.

11.2 Cash and Investment Balances

The report was taken as read.

11.3 Capital Works Quarterly Report

The report was taken as read.

With regards to carryover works, Hamish Munro confirmed the figures are included in the financial plan and incorporated into the business planning process. Finance officers have been working with the Capital Works team to ensure there is minimal impact on delivery and there are no concerns to be raised at this stage. The total carryover figure is shown on page 285 of the agenda papers as approximately \$13 million.

DECISION:

The Audit and Risk Committee noted the Capital Works quarterly report.

12. OTHER BUSINESS

The Committee agreed that all future meetings should be held at the Civic Centre, with an online link provided for members and attendees who aren't able to join in person.

13. NEXT MEETING

The next meeting will be held on 22 November 2023 at 10:45am at the Civic Centre.

The meeting closed at 12:38pm.