



Ararat Rural City



Ararat Rural City

MINUTES

Audit and Risk Committee

Tuesday 04 June 2024

Location: CEO's Office,
59 Vincent St, Ararat

Commencing at 1:00 pm

Audit and Risk Committee:

Cr Bob Sanders (Mayor)

Cr Jo Armstrong

Ms Jessica Adler

Mr Robert Tommasini

Mr Greg Jakob

Mr Ryan Schischka

In attendance:

Dr Tim Harrison

Mr Bradley Ead

Ms Karissa Hogan

Mrs Chandra Willmott

SECTION 1 – PROCEDURAL MATTERS	4
1.1 APOLOGIES.....	4
1.2 DECLARATION OF DISCLOSURE OF INTERESTS	4
1.3 CONFIRMATION OF MINUTES.....	4
SECTION 2- CEO UPDATE	5
2.1 CEO UPDATE – CONFIDENTIAL.....	5
SECTION 3- FINANCE AND PERFORMANCE REPORTING	5
3.1 QUARTERLY PERFORMANCE REPORT	6
3.2 REVIEW OF SHELL FINANCIAL STATEMENTS AND SHELL PERFORMANCE STATEMENT	12
SECTION 4 – INTERNAL CONTROLS	13
4.1 COUNCIL POLICY REVIEW UPDATE	13
SECTION 5- RISK MANAGEMENT	15
5.1 STRATEGIC RISK REGISTER REVIEW AND RISK REGISTER PROGRAM UPDATE.....	15
5.2 REVIEW ANNUALLY THE EFFECTIVENESS OF COUNCIL’S RISK MANAGEMENT FRAMEWORK	17
SECTION 6- FRAUD PREVENTION	18
SECTION 7- INTERNAL AUDIT	19
7.1 INTERNAL AUDIT- AUDIT REVIEW OUTCOMES UPDATE	19
7.2 REVIEW AND APPROVED THE STRATEGIC INTERNAL AUDIT PLAN, THE ANNUAL INTERNAL AUDIT PLAN.....	20
7.3 INTERNAL AUDIT – SERVICES PERFORMANCE – MEASURING, REPORTING AND MONITORING	21
SECTION 8- EXTERNAL AUDIT	22
8.1 EXTERNAL AUDIT – DRAFT INTERIM MANAGEMENT LETTER FOR THE FINANCIAL YEAR ENDING 30 JUNE 2024	22
8.2 RECOMMENDATION 1 IN THE RESULTS OF AUDIT 2022-23: LOCAL GOVERNMENT	23
8.3 RECOMMENDATION 4 IN THE RESULTS OF AUDIT 2022-23: LOCAL GOVERNMENT	25
8.4 RECOMMENDATION 5 IN THE RESULTS OF AUDIT 2022-23: LOCAL GOVERNMENT	26
8.5 RECOMMENDATION 6 IN THE RESULTS OF AUDIT 2022-23: LOCAL GOVERNMENT	27
8.6 EXTERNAL AUDIT - AUDIT STRATEGY FOR THE FINANCIAL YEAR ENDING 30 JUNE 2024	28



SECTION 9- COMPLIANCE	29
9.1 JLT Public Sector – Top Cyber-Security Controls Review 2023: Ararat Rural City Council	29
SECTION 10- GENERAL BUSINESS	31
10.1 INDUSTRY UPDATE- RECENT REPORTS AND PUBLICATIONS OF INTEREST	31
SECTION 11 – FUTURE MEETINGS	32
11.1 FUTURE MEETING DATES	32
SECTION 12- NEXT MEETING/CHARTER ITEMS	33

SECTION 1 – PROCEDURAL MATTERS

1.1 APOLOGIES

There were no apologies

1.2 DECLARATION OF DISCLOSURE OF INTERESTS

Disclosure of Interests are to be made immediately prior to any relevant item being discussed.
There were no disclosures of interest

1.3 CONFIRMATION OF MINUTES

MOVED GREG JAKOB
SECONDED ROBERT TOMMASINI

That the Minutes of the Internal Audit and Risk Committee Meeting held on 02 April 2024 be received.

CARRIED

SECTION 2- CEO UPDATE

2.1 CEO UPDATE – **CONFIDENTIAL**

RECOMMENDATION

That the CEO's report be received.

OUTCOME

That the CEO's report be received.

ATTACHMENTS

There are no attachments in relation to this item.

Actions: Copy of draft budget and Capital works information to be sent to the committee

SECTION 3- FINANCE AND PERFORMANCE REPORTING

3.1 QUARTERLY PERFORMANCE REPORT

Aligns with Audit and Risk Committee Charter 5.6: Review the appropriateness of the format and content of periodic management financial reports and performance statements

RESPONSIBLE OFFICER: CHIEF EXECUTIVE OFFICER
DEPARTMENT: CEO'S OFFICE

OFFICER DIRECT OR INDIRECT CONFLICT OF INTEREST:
Officers providing advice to Council must disclose any conflict of interest.

No person involved in the preparation of this report has a conflict of interest requiring disclosure.

EXECUTIVE SUMMARY

The financial statements and performance indicators have been prepared for the period ended 31 March 2024

Based on the information provided by responsible officers and managers Council's overall financial performance is in line with budget.

DISCUSSION

Council must establish and maintain a budgeting and reporting framework that is consistent with the principles of sound financial management.

Key Financial information:

Income Statement (Attachment 1)

The Income Statement measures how well Council has performed from an operating nature. It reports revenues and expenditure from the activities and functions undertaken, with the net effect being a surplus or deficit. Capital expenditure is excluded from this statement, as it is reflected in the Balance Sheet.

Attachment 1 shows that Council generated \$23.051 million in revenue and \$23.356 million in expenses to 31 March 2024. This has resulted in an operating deficit of \$0.305 million for the nine months ended 31 March 2024.

Income

Rates and charges account for 63% of the total budgeted income for 2023/24. Rates and charges are recognised when the rates have been raised, not when the income has been received. An amount of \$17.697 million has been recognised as income for the nine months ended 31 March 2024.

User fees account for 5% of the total budgeted income for 2023/24 and \$1.166 million has been received to 31 March 2024. The majority of this relates to transfer station fees, fitness centre income and commercial waste management charges.

Recurrent Operating Grants total \$0.880 million to 31 March 2024, including \$0.150 million from the Victorian Local Government Grants Commission for general purpose grants and \$0.096 million for the local roads grants.

Non-recurrent Operating Grants total \$1.972 million to 31 March 2024. Council has been successful in obtaining several grants that had not been budgeted for, as detailed in the table below. The amounts shown as unearned

income will be treated as income in future accounting periods once the performance obligations of the grant have been met.

	Budget 2023/24 \$'000	Income 2023/24 \$'000	Unearned Income \$'000
Non-Recurrent Operating Grants			
New Arrivals Settlement Program	-	44	-
Pilot Coordination Grampians Workforce	-	50	-
Ararat Housing Transition	-	-	300
Digital Twin Victoria	-	402	552
Free Public WiFi Services	-	-	1,196
Rural Roads Support Program	-	-	56
Supported Playgroups	63	49	-
Kindergarten Infrastructure and Services Plan (KISP) Support Grant	-	30	-
Council COVID-19 Rapid Antigen Test Program	-	60	-
Power our Future!! Tatyoon Recreation Reserve	-	20	-
Tatyoon Oval Upgrade	-	-	225
Natural Disaster Relief – Flood Event October 2022	-	1,080	-
Planning & Data Development	-	93	-
Wage Subsidy Grants	-	59	-
Other Minor Grants (under \$20,000)	6	85	-
	69	1,972	2,329

Non-recurrent Capital Grants total \$0.437 million to 31 March 2024, as detailed in the table below. The amounts shown as unearned income will be treated as income in future accounting periods once the performance obligations of the grant have been met.

	Budget 2023/24 \$'000	Income 2023/24 \$'000	Unearned Income \$'000
Non-Recurrent Capital Grants			
Ararat East Development Zone Trunk Infrastructure Project	-	419	-
Ararat Regional Playgrounds All Abilities Redevelopment	-	18	-
Local Roads & Community Infrastructure-Roads Grant	-	-	922
	0	437	922

Note

It is important to note the following:

1. The Grants Operating (recurrent) figure in the Original Budget was \$7.677 million and in the Current Budget is recorded as \$0.191 million, as \$7.426 million was paid to Council in 2022/23 by the Victorian Local Government Grants Commission (VLGGC) for the 2023/24 financial year. Council has still received the expected VLGGC income, to be spent in 2023/24, however it will be reported over two financial years. Council also received \$0.060 million funding in advance for the Municipal Emergency Response Plan which has also been adjusted in the current budget.

2. Unearned revenue received in prior years has been adjusted between the Original Budget and Current Budget with an additional \$2.593 million for Grants Operating (non-recurrent), \$0.056 million for Grants Capital (recurrent) and \$0.419 million for Grants Capital (non-recurrent) included in the Current Budget on the assumption that each of the grant projects will be completed during the 2023/24 financial year.
3. These changes in the budget, plus the note reported under expenses, create a change in the reported surplus position from a projected surplus of \$1.296 million to a deficit of \$6.812 million for 2023/24. The year-end variance is a surplus of \$0.177 million when the actual year to date expenses are compared to the year to date budget.

Expenses

Employee Costs account for approximately 41% of the total budgeted expenditure for 2023/24. For the nine months ended 31 March 2024 Council has incurred \$8.497 million in employee costs.

Materials and Services account for approximately 29% of the total budgeted expenditure for 2023/24. For the nine months ended 31 March 2024, Council has incurred \$7.430 million in materials and services costs. There are a number of projects, including those carried forward from 2022/23 that are expected to be completed before the end of the financial year.

Note

It is important to note the following:

There has been an increase in expenditure on materials and services from \$8.035 million in the Original Budget to \$11.555 million in the Current Budget for 2023/24. This has resulted from a carry forward amount of \$3.520 million from the 2022/23 financial year surplus and unspent grant funds which will be used for additional activity in 2023/24. Additionally, there has been an increase of \$0.170 million in employee costs from \$11.134 million in the Original Budget to \$11,304 million in the Current Budget with some grant-funded projects requiring additional staffing to meet the requirements of the grant.

Balance Sheet (Attachment 2)

The Balance Sheet is one of the main financial statements and reports Council's assets, liabilities and equity at a given date, in this case 31 March 2024. Comparative figures have been provided as at 30 June 2023.

Council's current assets have decreased by \$5.337 million from \$24.057 million as at 30 June 2023 to \$18.720 million as at 31 March 2024. Cash and cash equivalents have decreased by \$2.067 million from \$11.457 million to \$9.390 million, with another \$3.000 million held in a term deposit now classified as a financial asset. Trade and other receivables have increased by \$1.695 million from \$4.509 million as at 30 June 2023 to \$6.204 million as at 31 March 2024.

Total liabilities have decreased from \$8.596 million in 2022/23 to \$8.502 million in 2023/24. Trade and other payables have decreased by \$1.002 million and trust funds and deposits have increased by \$0.200 million. Unearned income/revenue increased by \$0.240 million, and includes grants received by Council, where in accordance with accounting standards they are held as a liability until grant-related performance obligations have been met.

Statement of Cash Flows (Attachment 3)

The Statement of Cash Flows shows how changes in the Statement of Financial Position and Income Statement affect Cash and Cash Equivalents, and breaks down the analysis to operating activities, investing activities and financing activities.

The Cash and Cash Equivalents at the beginning of the financial year of \$11.457 million have decreased by \$2.065 million to \$9.392 million as at 31 March 2024. Council has a term deposit of \$3.000 million with a term greater than three months, which is currently classified as a financial asset, and is no longer included in cash and cash equivalents.

Net cash of \$4.415 million was provided by operating activities, \$5.460 million was used in investing activities, and \$1.020 million was used in financing activities.

Investing activities includes payments for property, plant and equipment, and infrastructure.

Financial Performance Indicators (Attachment 4)

The Local Government Performance Reporting Framework requires Councils to report various performance indicators at the end of each financial year.

A full list of financial performance indicators is included in Attachment 4.

Indicator	30/6/2023	30/9/2023	30/12/2023	31/3/2024
<p>Working capital <i>Measure - Current assets compared to current liabilities.</i> Expected values in accordance with the Local Government Performance Reporting Framework 100% to 400% Indicator of the broad objective that sufficient working capital is available to pay bills as and when they fall due. High or increasing level of working capital suggests an improvement in liquidity</p>	322%	411%	334%	280%
<p>Loans and borrowings <i>Measure - Loans and borrowings compared to rates.</i> Expected values in accordance with the Local Government Performance Reporting Framework – 0% to 70% Indicator of the broad objective that the level of interest-bearing loans and borrowings should be appropriate to the size and nature of a council’s activities. Low or decreasing level of loans and borrowings suggests an improvement in the capacity to meet long term obligations</p>	7.07%	6.85%	6.41%	1.92%
<p>Indebtedness <i>Measure - Non-current liabilities compared to own source revenue</i> Expected values in accordance with the Local Government Performance Reporting Framework – 2% to 70% Indicator of the broad objective that the level of long-term liabilities should be appropriate to the size and nature of a Council’s activities. Low or decreasing level of long-term liabilities suggests an improvement in the capacity to meet long term obligations</p>	5.47%	6.19%	9.58%	9.21%
<p>Rates concentration <i>Measure - Rates compared to adjusted underlying revenue</i> Expected values in accordance with the Local Government Performance Reporting Framework – 30% to 80% Indicator of the broad objective that revenue should be generated from a range of sources. High or increasing range of revenue sources suggests an improvement in stability</p>	51.46%	92.70%	85.22%	78.27%
<p>Expenditure level <i>Measure - Expenses per property assessment</i> Expected values in accordance with the Local Government Performance Reporting Framework \$2,000 to \$10,000 Indicator of the broad objective that resources should be used efficiently in the delivery of services. Low or decreasing level of</p>	\$4,616	\$1,191	\$2,348	\$3,157

expenditure suggests an improvement in organisational efficiency				
<p>Indicator - Revenue level</p> <p><i>Measure - Average residential rate per residential property assessment</i></p> <p>Expected values in accordance with the Local Government Performance Reporting Framework - \$700 to \$2,000</p> <p>Indicator of the broad objective that resources should be used efficiently in the delivery of services. Low or decreasing level of rates suggests an improvement in organisational efficiency</p>	\$2,006	\$2,005	\$2,003	\$1,995
<p>Indicator – Percentage of total rates collected</p> <p>The internal audit conducted in 2019 on Rates Revenue and Rate Debtor Management found no routine or regular reporting of large and long outstanding rates debtors. The outstanding Rates Debtors is reported in the Annual Financial report.</p> <p>As at 31 March 2024 the outstanding Rates Debtors totalled \$4.917 million compared to \$1.955 million as at 30 June 2023, a decrease of \$6.539 million. In percentage terms 77.4% of the rates raised have been collected at 31 March 2024 compared to 78.5% up to 31 March 2023.</p> <p>Outstanding rates are currently charged 10% interest. Council issues approximately 7,900 rate notices. In 2023/24 there are 2,640 assessments paying by instalments compared with 2,843 assessments in 2022/23.</p>	90.2%	14.9%	31.5%	77.4%
<p>Indicator – Asset Renewal & Upgrade</p> <p><i>Measure - Asset renewal & Upgrade compared to depreciation</i></p> <p>Expected range in accordance with the Local Government Performance Reporting Framework – 40% to 130%</p> <p>Assessment of whether council assets are being renewed or upgraded as planned. It compares the rate of spending on existing assets through renewing, restoring, replacing or upgrading existing assets with depreciation. Ratios higher than 1.0 indicate there is a lesser risk of insufficient spending on Council’s asset base.</p>	90.93%	103.49%	130.69%	125.79%

The Local Government Performance Reporting Framework provides “Expected ranges” for each indicator. The framework has been developed to consider results at the end of the financial year so some results during the year are outside the expected range due to the timing of receipts and payments.

Explanations are provided in Attachment 4 for those indicators that are outside the “expected ranges”.

KEY CONSIDERATIONS

Alignment to Council Plan Strategic Objectives

6 Strong and Effective Governance

We will work hard to build models of governance that place delivering public value at the centre through effective financial management; well measured risk management; and implementation of effective community engagement practices

6.1 Deliver responsible budget outcomes, linked to strategy, that deliver value, innovation, and rating fairness

Budget Implications

Council's financial performance is in line with expectations. Council's cash position was expected to reduce in the first half of the year to pay for the outstanding accounts at year end and the capital works program, with the cash position increasing in the third quarter with many ratepayers electing to pay their rates in full due 15 February 2024 and the third instalment due 28 February 2024.

Policy/Relevant Law

Section 97 – Quarterly Budget Report of the Local Government Act 2020 states:

- 1 As soon as practicable after the end of each quarter of the financial year, the Chief Executive Officer must ensure that a quarterly budget report is presented to the Council at a Council meeting which is open to the public.
- 2 A quarterly budget report must include—
 - (a) a comparison of the actual and budgeted results to date; and
 - (b) an explanation of any material variations; and
 - (c) any other matters prescribed by the regulations.
- 3 In addition, the second quarterly report of a financial year must include a statement by the Chief Executive Officer as to whether a revised budget is, or may be, required.

Sustainability Implications

This report does not raise any sustainability implications.

Risk Assessment

Council is required to establish and maintain a budgeting and reporting framework that is consistent with the principles of sound management and this report assists Council in meeting that requirement.

Innovation and Continuous Improvement

The content of the Quarterly report is continually reviewed to ensure meaningful data is provided.

Stakeholder Collaboration and Community Engagement

Council's financial performance reports are published quarterly.

RECOMMENDATION

That the: Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators for the period ended 31 March 2024 be noted

OUTCOME

That the: Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators for the period ended 31 March 2024 were noted

ATTACHMENTS

Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators are provided as Attachment 3.1

Action: To have the balance sheet from the previous year for the same time frame submitted as a comparison and to investigate providing further breakdown of the percentage of rates collected based on payment plan (ie. Pay in full or by instalment).

3.2 REVIEW OF SHELL FINANCIAL STATEMENTS AND SHELL PERFORMANCE STATEMENT

Aligns with Audit and Risk Committee Charter 5.3 Review the annual financial report and annual performance statement.

BACKGROUND

Council prepares shell financial statements and a shell performance statement for the external auditor prior to 30 June 2024. Council uses the model templates provided by Local Government Victoria (LGV) in February, to prepare shell documents updated to reflect the individual requirements relevant to Council, with the 2022-2023 figures included.

This allows the auditor to review the draft documents and provide early feedback of items requiring further consideration, such as:

- variances in the previous year comparative figures for the financial year ended 30 June 2023
- the format and presentation of the statements
- the draft wording, particularly for the notes to the financial statements
- any new disclosures or additional notes that may be required
- additional documentation or evidence that may be required during the audit

DISCUSSION

The Audit and Risk Committee meeting on 1 April 2024 requested that a copy of the shell reports be provided for the committee to review.

Council is finalising the review of the shell Financial Statements and shell Performance Statement and the documents will be distributed to Audit & Risk Committee members prior to the meeting.

RECOMMENDATION

That the shell Financial Statements and Performance Statement for the financial year ending 30 June 2024 be noted.

OUTCOME

That the shell Financial Statements and Performance Statement for the financial year ending 30 June 2024 be noted.

ATTACHMENTS

Attachment will be forward prior to the meeting

Action: Feedback to be provided so committee has time to read.

SECTION 4 – INTERNAL CONTROLS

4.1 COUNCIL POLICY REVIEW UPDATE

Aligns with Audit and Risk Committee Charter 5.7 : Review the adequacy and effectiveness of key policies, systems and controls for providing a sound internal control environment.

OFFICER DIRECT OR INDIRECT CONFLICT OF INTEREST:

Officers providing advice to Council must disclose any conflict of interest.

No person involved in the preparation of this report has a conflict of interest requiring disclosure.

BACKGROUND

Council policies are reviewed on an ongoing and procedure review process.

This report outlines the several Administrative and Council policies which are currently being reviewed.

DISCUSSION

Council has committed to reviewing policies through a review process to ensure that all Council policies meet legislative requirements and established internal processes.

All Council policies are accessible to Councillors, Audit and Risk Committee and staff through Microsoft Teams, hard copies in tearooms at Depot and Municipal Offices and on Council website.

The table below provides a list of the recently reviewed policies with track changes, noting the main changes made to the documents. Copies of the policies are provided as an attachment to this report.

Administrative / Council	Policy Title	Last Reviewed and Adopted	Current Review Date ready for Adoption	Next Review
Council	<ul style="list-style-type: none"> International and Interstate Travel Policy 	17 March 2020	25 June 2024	March 2028
Council	<ul style="list-style-type: none"> Public Transparency Policy 	21 July 2020	25 June 2024	July 2028
Council	<ul style="list-style-type: none"> Council Expenses and support 	21 July 2020	25 June 2024	July 2026

The changes were predominantly administrative with only some additions to the council Expenses and support policy which includes some principles such as proper conduct, accountability and transparency.

RECOMMENDATION

That the Council Policy Review Update be noted.

OUTCOME

That the Council Policy Review Update were noted.

ATTACHMENTS

Draft International and interstate Travel, public Transparency Policy and Council Expense and support provided as Attachment 4.1

Action: To table a complete list of policies that ARC have outlined in previous meetings to each meeting going forward.

SECTION 5- RISK MANAGEMENT

5.1 STRATEGIC RISK REGISTER REVIEW AND RISK REGISTER PROGRAM UPDATE

Aligns with Audit and Risk Committee Charter 5.14: Review Council’s risk profile and the changes occurring in the profile from meeting to meeting

BACKGROUND

Council’s Strategic Risk Register is reviewed by the Chief Executive Officer on a regular basis and is presented to the Audit and Risk Committee.

DISCUSSION

The Chief Executive Officer ensures that strategic risks are identified and assessed, treatment options are prioritized and implemented, actions are assigned, and performance is monitored and reviewed.

A review plan of the Strategic Risk Register was presented to the Audit and Risk Committee on the 2 April 2024. The suggested program has been revised as suggested at the previous ARC to focus on the higher risk areas first. Since then, the following strategic risks have been reviewed and updated: Business Continuity, IT infrastructure and Financial Sustainability.

The below table outlines the review periods for each of the strategic risks:

February 2024	Fraud and Corruption; Cyber Attack	July 2024	Legislative Compliance
March 2024	Asset Management	August 2024	Business Continuity
April 2024	Business Continuity	September 2024	Procurement; and Emergency Management
May 2024	Financial Sustainability	October 2024	Waste Management; and Occupational Health and Safety
June 2024	IT Infrastructure	November 2024	Strategic Leadership and Advocacy
July 2024	Governance	December 2024	Climate Change; and Records Management

The Risk Program is now operational. The Governance and Risk Lead will work with Service owners to review the operational risks and set ongoing review dates. The below table outlines the timeframe for each of these reviews to take place over the next 6 months and training for key service providers in using the system.

Month	Service Area
June	Local Laws, Municipal Building Services, Planning, Environmental Health, Environmental Management and Sustainability
July	Risk Management, Governance, Emergency Management, Insurance Management
August	Design and Project Management, Information Technology, Asset Management, Records Management, Graphic Information Systems,
September	Maternal & Child Health, Occupational Health and Safety, Library Service, Events, Human Resource, Customer Services

October	Art Gallery / TAMA, Sport and recreation, Tourism, Town Hall, Media and Communications, Economic Development
November	Depot, Waste management, Contracts and Procurement, Finance, Property Rates and Valuation,

RECOMMENDATION

That the Strategic Risk Review and Update Report be noted.

OUTCOME

That the Strategic Risk Review and Update Report were noted.

ATTACHMENTS

The Strategic Risk Register is provided as Attachment 5.1

5.2 REVIEW ANNUALLY THE EFFECTIVENESS OF COUNCIL'S RISK MANAGEMENT FRAMEWORK

Aligns with Audit and Risk Committee Charter 5.12: Review annually the effectiveness of Council's risk management framework

BACKGROUND

This report is presented as part of the Audit and Risk Committee's Annual Work Plan – June 2024. The purpose of this report is to provide the Audit and Risk Committee with an update on Council's Risk Management Framework.

DISCUSSION

The Risk Management Policy and Risk Management Framework were adopted at the 30 April 2024 Council meeting after they were presented to the April Audit and Risk Committee meeting. Both documents are scheduled to be revised in December 2025.

Below is an update on what officers have been working on in relation to risk.

- 2 staff members attended the MAV Best Practice forum and Regional workshop including risk management 13th March 2024
- Risk Management System completed including the Power BI reporting system completed and plan to implement conduct reviews on all risks across the organization by end of November 2024 and will incorporate and biannual review of risks associated in the organization as in line with the RMF.

Forward plans to be implement:

- Tiered training of the Councils Risk Management Framework, pitched at different levels: Employees, Team Leaders and Leads. This will involve training videos, compliance training and face to face training. This will need to be incorporated into a yearly program
- Scheduling timely reviews Key Performance Indicators that are outlined in the RMF.
- Continue to engage in external forums in relation to Risk Management and encourage Leaders to attend.

RECOMMENDATION

That the Strategic Risk Review and Update Report be noted.

OUTCOME

That the Strategic Risk Review and Update Report were noted.

ATTACHMENTS

There are no attachments to this report.

SECTION 6- FRAUD PREVENTION

NIL

SECTION 7- INTERNAL AUDIT

7.1 INTERNAL AUDIT- AUDIT REVIEW OUTCOMES UPDATE

Aligns with Audit and Risk Committee Charter 5.27 Monitor actions by management or internal audit findings and recommendations

BACKGROUND

Council appointed AFS & Associates from Bendigo as Council's Internal Auditors. Council has reviewed the recommendations made by the Internal Auditor in relation to the internal audit reviews and these are presented as an attachment to this report.

DISCUSSION

An Audit Review Outcomes Action Plan was developed to capture the recommendations highlighted in the various internal audits conducted by AFS.

The Audit Review Outcome Action Plan lists the recommendations and subsequent outcomes and projected completion dates.

There is four items that are 100% completed. Furthermore, now that the RMS is completed and is being used, over the next few months, further items will be able to be completed. Additionally, a new schedule is being put in place to monitor the ongoing completion of the internal audit outcomes in a timely manner.

RECOMMENDATION

The Audit Review Outcomes Update report be noted.

OUTCOME

The Audit Review Outcomes Update report was noted.

ATTACHMENTS

The Audit Review Outcomes Update report is included as Attachment 7.1 (a) and 71(b)

Action: ARC have requested that the name of the spreadsheet be altered to reflect spreadsheet more closely.

7.2 REVIEW AND APPROVED THE STRATEGIC INTERNAL AUDIT PLAN, THE ANNUAL INTERNAL AUDIT PLAN

Aligns with Audit and Risk Committee Charter 5.23 Review progress on delivery of annual internal audit plan and 5.24 Review and approve proposed scopes for each review in the annual internal audit plan

BACKGROUND

AFS & Associates (AFS) are Council's Internal Auditors. This report outlines the audit program that AFS has undertaken over the past three years.

DISCUSSION

AFS & Associates have provided the Internal Audit Program Review document which outlines the forward rolling four-year program for Council.

The purpose of this review is to :

- Confirm the priority areas for 2024 – 2025
- Review the proposed scopes for
 - Depot costing review
 - Fraud and Corruption Framework

RECOMMENDATION

The Strategic Internal Audit Program Status Update report be noted.

OUTCOME

The Strategic Internal Audit Program Status Update report was noted.

ATTACHMENTS

The strategic Internal Audit Program Update report is provided as Attachment 7.2 The audit scopes for Depot Costing Review (7.2a) and Fraud and Corruption Framework (7.2b) are attached

7.3 INTERNAL AUDIT – SERVICES PERFORMANCE – MEASURING, REPORTING AND MONITORING

Aligns with Audit and Risk Committee Charter 5.25 Review reports of internal audit reviews, including recommendations for improvement arising from those reviews.

BACKGROUND

AFS & Associates are Council's Internal Auditors and have recently conducted an audit on Ararat Rural City Council Services Performance.

DISCUSSION

The objectives of the review for the Accounts Payable audit were to

- Ensure key internal exist and are applied over account payable
- Identify efficiency opportunities in procurement in the low-value procurement segments.

The audit concluded there were 4 areas of strength and 2 areas of moderate finding and 6 areas rated as minor risks. The audit also identified 4 opportunities to explore.

All recommendations suggested to management have been agreed to or partially agreed to. An update on the progress of the agreed to action items will be provided at the June 2024 Audit & Risk Committee meeting.

RECOMMENDATION

That the Accounts Payable Audit report be noted.

OUTCOME

That the Accounts Payable Audit report was noted.

ATTACHMENTS

The AFS & Associate Audit of the Accounts Payable report is provided as Attachment 7.3

SECTION 8- EXTERNAL AUDIT

8.1 EXTERNAL AUDIT – DRAFT INTERIM MANAGEMENT LETTER FOR THE FINANCIAL YEAR ENDING 30 JUNE 2024

Aligns with Audit and Risk Committee Charter 5.33 Quarterly review to ensure that managements responses to any external audit findings are acted upon in a timely manner.

BACKGROUND

The Victoria Auditor General appoints a service provider to undertake the annual financial audit. Mr Ryan Schischka of Johnsons MME has been appointed by the Victoria Auditor-General's office to undertake the annual financial audit for the year ending 30 June 2023.

DISCUSSION

Johnsons MME conducted the interim audit in April within the remote working environment. A draft interim management letter has been received. There are four open issues from the current period and prior period, with two issues being resolved during the period.

VAGO has also included in the letter four recommendations that are specific to all council, based on the findings in their report to parliament, *Results of 2022-23 audits – Local Government*.

RECOMMENDATION

That the Draft Interim Management Letter Report for the financial year ending 30 June 2024 be noted.

OUTCOME

That the Draft Interim Management Letter Report for the financial year ending 30 June 2024 was noted.

ATTACHMENTS

The Draft Interim Management Letter is provided as Attachment 8.1.

Action: To work the 4 items from VAGO so they can be removed is a priority including the Business Continuity Plan.

8.2 RECOMMENDATION 1 IN THE RESULTS OF AUDIT 2022-23: LOCAL GOVERNMENT

Aligns with Audit and Risk Committee Charter 5.34 Quarterly review Victorian Auditor General’s Office (VAGO) reports to assess the impacts on Council.

BACKGROUND

The Victoria Auditor General’s Office (VAGO) presented a report to parliament, *Results of 2022-23 audits - Local Government* on 7 March 2024, The report discusses the observations and findings across all 79 councils as a result of their audit of the sector. The report includes a total of six recommendations, however only four of the recommendations are specific to all councils

Recommendation 1 recommends that all councils:

- Arrange for training or briefing sessions to be held with key internal stakeholders before the 30 June 2024 to enhance their understanding of the financial reporting process and their legislative obligations
- Assess the adequacy of their financial reporting plan given their legislative obligations, namely:
 - Task allocation and timelines
 - The nature and timing of liaison with other business units
 - Quality assurance processes
- Critically assess whether they have the resources and expertise to fulfil their financial reporting obligations throughout the year and, if not, that they consider engaging an external party.

DISCUSSION

Council has used Microsoft Project to build a detailed plan of tasks and timelines required for end of year reporting. The following table provides an overview of the key components of the reporting process with details of key staff assisting the finance team to complete the component. The table also includes an estimate of the total time required and the date that all tasks within each component need to be completed by.

End of Year Reporting Process - Key Components	Key Staff Support	Estimated Time Allocation (Hours)	Required By
Asset Valuations	Asset Manager	7	2-Aug-24
Property, Infrastructure, Plant & Equipment - Depreciation, Additions & Disposals	Asset Manager	10.5	25-Jul-24
Review Payroll & Superannuation	Payroll Officer	12	20-Jul-24
Governance, Risk & Policies	Governance & Risk Lead	3	15-Jul-24
Review Expenses - including Commitments and Contract Register	Contracts & Procurement Lead	20	25-Jul-24
Review Income - Grant Revenue, Property Rating System & Revenue & Other	Rate & Valuations Officer	13.5	25-Jul-24
Other Assets		8	25-Jul-24
Other Liabilities		6	25-Jul-24
Loan & Lease Liabilities		2	10-Jul-24
Equity - consider transfers to & from reserves		4	25-Jul-24
Reporting	Organisational Transformation	29	5-Aug-24
Joint Venture	Contracts & Procurement Lead	3	25-Jul-24
TOTAL ESTIMATED HOURS		118	

A training session has been scheduled for 17 June 2024 with the key staff involved with the end of year financial reporting process. The session will outline how the process will be managed using Microsoft Projects with individual tasks assigned to the relevant staff and a due date for completion. The session will also include details of the legislative obligations related to the reporting process.

Council has identified that audit is scheduled to commence on Monday 5 August, however the ABS Producer Price Indexes required for the indexation of infrastructure assets will not be released until Friday 2 August. Council will endeavour to process the indexation entries as a priority to ensure that a final trial balance is available prior to 5 August. However, this means that updated draft reports such as the financial statements and performance statement may not be available prior to the commencement of the audit, but it is expected that the reports would be available by 7 August 2024.

Apart from the minor delay in finalising draft reports, caused by the late release of indexes, a review of the reporting timeline indicates that adequate resources and expertise are available to meet the financial reporting obligations.

RECOMMENDATION

That Recommendation 1 of the Audit 2022-23: Local Government be noted.

OUTCOME

That Recommendation 1 of the Audit 2022-23: Local Government was noted.

ATTACHMENTS

There are no attachments to this report.

8.3 RECOMMENDATION 4 IN THE RESULTS OF AUDIT 2022-23: LOCAL GOVERNMENT

Aligns with Audit and Risk Committee Charter 5.34 Quarterly review Victorian Auditor General's Office (VAGO) reports to assess the impacts on Council.

BACKGROUND

The Victoria Auditor General's Office (VAGO) presented a report to parliament, *Results of 2022-23 audits - Local Government* on 7 March 2024, The report discusses the observations and findings across all 79 councils as a result of their audit of the sector. The report includes a total of six recommendations, however only four of the recommendations are specific to all councils

Recommendation 4 recommends that finance teams:

- Prepare and present a paper to their audit and risk committee prior to 30 June each year that outlines the:
 - Requirements of the council's accounting policy with respect to property, infrastructure assets, plant and equipment
 - Approach to assessing the fair value of each class of property, infrastructure assets, plant and equipment, including the engagement of an expert valuer and key milestones.
 - Likely outcomes for the respective reporting cycle (expected movements in fair value and resultant impact on the financial report)

DISCUSSION

The most recent standard full revaluation was completed in 2021/2022 for the following classes - land, buildings, roads, bridges, footpaths and drainage, and the most recent full revaluation for artworks was completed in 2022/2023.

Land and buildings owned or controlled by Council will be revalued in 2023/2024 by an independent real estate valuer, PW Newman Pty Ltd, with final valuation figures scheduled to be returned to Council in the first week of July 2024.

For Council's infrastructure assets (roads, bridges, footpaths and drainage), indexation will be applied based on the Australian Bureau of Statistics (ABS) Producer Price Index.

It would be expected under current economic conditions we will see upward movements in the fair value of Council's assets that align with market and economy trends.

The table included as an attachment outlines Council's accounting policy, approach to valuations for 30 June 2024 and the likely outcomes for each asset class.

RECOMMENDATION

That Recommendation 4 of the Audit 2022-23: Local Government be noted.

OUTCOME

That Recommendation 4 of the Audit 2022-23: Local Government was noted.

ATTACHMENTS

The accounting policy and fair value assessments table is provided as Attachment 8.3.

Action: ARC have requested additional detail be provided to comply with VAGO's recommendation

8.4 RECOMMENDATION 5 IN THE RESULTS OF AUDIT 2022-23: LOCAL GOVERNMENT

Aligns with Audit and Risk Committee Charter 5.34 Quarterly review Victorian Auditor General's Office (VAGO) reports to assess the impacts on Council.

BACKGROUND

The Victoria Auditor General's Office (VAGO) presented a report to parliament, *Results of 2022-23 audits - Local Government* on 7 March 2024, The report discusses the observations and findings across all 79 councils as a result of their audit of the sector. The report includes a total of six recommendations, however only four of the recommendations are specific to all councils

Recommendation 5 recommends that the audit and risk committees:

- prior to balance date, review the financial team's accounting paper
- after balance date and at the time of reviewing the draft financial report
 - determine whether there have been any changes to circumstances that would indicate that key assumptions behind the financial team's initial advice and key judgements no longer hold true
 - assess the reasonableness of the valuation and fair value assessment outcomes
- update their annual work plan to include the above tasks.

DISCUSSION

Council's accounting policy and fair value assessment plans are included in item 8.3, and shell financial statements and the shell performance statement are included in item 3.2, for review by the committee prior to 30 June 2024.

Prior to the September Audit & Risk Committee meeting, the draft financial report will be provided for review by the committee to assess the key assumptions, judgements and valuation outcomes.

The annual work plan of the Audit & Risk Committee requires an update to review the documents in June and September each year.

RECOMMENDATION

That the annual work plan of the Audit & Risk Committee be updated:

- *for the June meeting to include - Review the finance team's accounting paper*
- *for the September meeting to include - Review the draft financial report to determine whether there have been any changes to circumstances that would indicate that key assumptions behind the finance team's initial advice and key judgements no longer hold true, and to assess the reasonableness of the valuation and fair value assessment outcomes.*

OUTCOME

That the annual work plan of the Audit & Risk Committee be updated:

- **for the June meeting to include - Review the finance team's accounting paper**
- **for the September meeting to include - Review the draft financial report to determine whether there have been any changes to circumstances that would indicate that key assumptions behind the finance team's initial advice and key judgements no longer hold true, and to assess the reasonableness of the valuation and fair value assessment outcomes.**

ATTACHMENTS

There are no attachments to this report.

8.5 RECOMMENDATION 6 IN THE RESULTS OF AUDIT 2022-23: LOCAL GOVERNMENT

Aligns with Audit and Risk Committee Charter 5.34 Quarterly review Victorian Auditor General's Office (VAGO) reports to assess the impacts on Council.

BACKGROUND

The Victoria Auditor General's Office (VAGO) presented a report to parliament, *Results of 2022-23 audits - Local Government* on 7 March 2024. The report discusses the observations and findings across all 79 councils as a result of their audit of the sector. The report includes a total of six recommendations, however only four of the recommendations are specific to councils.

Recommendation 6 recommends that councils:

- prioritise and promptly address the internal control and financial reporting issues we raise with them and that their audit and risk committee monitor this
- review the actions and timelines established to resolve internal control weaknesses, with a focus on older and higher risk findings.
- For longer-term action plans, ensure adequate compensating safeguards are in place.

DISCUSSION

Council continues to prioritise addressing issues raised in management letters. It is anticipated that all open recommendations will be resolved by 30 September 2024.

Management comments for the 4 open audit findings and the 4 VAGO recommendations are included in the draft interim management letter presented in item 8.1.

RECOMMENDATION

That Recommendation 6 of the Audit 2022-23: Local Government be noted.

OUTCOME

That Recommendation 6 of the Audit 2022-23: Local Government was noted.

ATTACHMENTS

There are no attachments to this report.

8.6 EXTERNAL AUDIT - AUDIT STRATEGY FOR THE FINANCIAL YEAR ENDING 30 JUNE 2024

Aligns with Audit and Risk Committee Charter 5.31 Annually review and approve the external audit scope and plan proposed by the external auditor.

BACKGROUND

The Victoria Auditor General appoints a service provider to undertake the annual financial audit. Mr Ryan Schischka of Johnsons MME has been appointed by the Victoria Auditor-General's office to undertake the annual financial audit for the year ending 30 June 2024.

DISCUSSION

A draft audit strategy was provided to the April Audit & Risk Committee meeting, and it was noted that the completed audit strategy document be distributed to the committee members. It is our understanding that VAGO are currently still finalising the strategy as they are awaiting clarification about the audit requirements for Council's joint venture, Ararat Housing Pty Ltd.

Council will distribute the completed audit strategy when received.

RECOMMENDATION

That the Audit Strategy for the Financial Year Ending 30 June 2024 update be noted.

OUTCOME

That the Audit Strategy for the Financial Year Ending 30 June 2024 update was noted.

ATTACHMENTS

There are no attachments to this report.

SECTION 9- COMPLIANCE

9.1 JLT Public Sector – Top Cyber-Security Controls Review 2023: Ararat Rural City Council

Aligns with Audit and Risk Committee Charter 5.40 Receive reports form management on the findings of any examination by regulatory or integrity agencies.

BACKGROUND

Cyber risk is a highly dynamic environment and has been regularly identified by Local Government CEO’s in the annual JLT Public Sector Risk Survey report as a top two risk. JLT Public Sector has created a laser-focused analysis of 12 Key Controls to assist in setting priorities within the Council.

DISCUSSION

There are 12 key controls assessed in which four of them scored great than 80% meaning the adequate controls are in place across all or most categories of the specified area. While some controls may require attention or development, implementation has been largely achieve to an acceptable level.

Three of the key controls scored between 50-80% referring that, adequate controls are in place across some categories of the specified area. Numerous controls required further attention and priority to achieve an acceptable level of implementation.

The other five key controls rated below 50% suggest that there are inadequate controls are in place across all or most categories of the specified area. Significant attention and development are required to achieve acceptable levels of implementation.

Of the 12 key components, 5 were an improvement on last year and by addressing the internal review outcomes, this will improve the overall control scores and cyber safety within Council.

	Key Controls	Self Assessment Questions	2023-2024	2022-2023
5	Email filtering and web security	Protection capabilities	79%	86%
6	Patch management and vulnerability	Protection capabilities	29%	38%
9	Hardening techniques, including Remote Desktop Protocol (RDP) mitigation	Secure Configuration	60%	100%
10	Logging and monitoring / network protections	Governance Log Monitoring	40%	70%

Discussions have been held in relation to the above 4 items to understand the decrease in rating. The main points from these discussions in relation to changes are:

- At times there are several items listed in a question and limited choice as to “Yes” or “No” and doesn’t give an opportunity for partial or comments.
- How the question is interrupted each year
- Variation of people completing each year.
- In reviewing the questions, some that were answered “No” in hindsight should have been answers “Yes”

To prevent this from occurring in future, the plan is to record the answers in an excel sheet with commentary regarding how the question was interpreted so that there is consistency in the review each year.

RECOMMENDATION

JLT Public Sector – Top Cyber-Security Controls Review 2023: Ararat Rural City Council and actions for future reporting be noted

OUTCOME

JLT Public Sector – Top Cyber-Security Controls Review 2023: Ararat Rural City Council and actions for future reporting was noted

ATTACHMENTS

The JLT Top Cyber-Security Controls Review 2023 is provided as Attachment 9.1

SECTION 10- GENERAL BUSINESS

10.1 INDUSTRY UPDATE- RECENT REPORTS AND PUBLICATIONS OF INTEREST

BACKGROUND

AFS & Associates (AFS) are Council's Internal Auditors. AFS have provided an Industry Update report to be included in the agenda. The Industry Update report lists recent reports and publications that may be of interest to Ararat Rural City Council.

DISCUSSION

The Industry Update report lists 31 recent articles and reports, covering a range of different topics from sources such as: IBAC, IIA, and VAGO etc.

RECOMMENDATION

That the Industry Update report be noted.

OUTCOME

That the Industry Update report was noted.

ATTACHMENTS

The Industry Update report is provided as Attachment 10.1.

SECTION 11 – FUTURE MEETINGS

11.1 FUTURE MEETING DATES

Future meetings of the Audit and Risk Committee are scheduled as follows:

- Tuesday 3 September 2024 1pm
- Tuesday 3 December 2024 1pm
- Tuesday 4 March 2024 1pm

Action: Robert Tommasini term runs out at the end of the next ARC meeting.

SECTION 12- NEXT MEETING/CHARTER ITEMS

June 2024		
Ref. from Charter		Ref. in Agenda
5.12	Review annually the effectiveness of Council’s risk management framework	Item 5.2
5.13	Review Council’s risk appetite statement	Presented at April 2024
5.14	Review Council’s risk profile and the changes occurring in the profile	Item 5.1
5.15	Review Council’s treatment plans for significant risks	Item 5.1
5.16	Review the insurance program annually prior to renewal	September 2024
5.23	Quarterly report to review progress on delivery of annual internal audit plan	Item 7.2
5.24	Quarterly review and approve proposed scopes in the annual internal audit plan	Item 7.2
5.25	Review reports on internal audit reviews, including recommendations for improvement arising from those reviews	Item 7.3
5.26	Meet with the leader of the internal audit function at least annually in the absence of management	
5.27	Monitor action by management on internal audit findings and recommendations	Item 7.1
5.28	Annually review the effectiveness of the internal audit function	
5.33	Quarterly review to ensure that managements responses to any external audit findings are acted upon in a timely manner	Item 8.1
5.34	Quarterly review Victorian Auditor General’s Office (VAGO) reports to assess the impacts on Council	Item 8.1, 8.2, 8.3, 8.4, 8.5

September 2024	
Ref. from Charter	
5.6	Review the appropriateness of the format and content of periodic management financial reports and performance statements
5.7	Review the adequacy and effectiveness of key policies, systems and controls for providing a sound internal control environment*
5.8	Determine whether systems and controls are reviewed regularly and updated where required*
5.9	Annual review of significant changes to key systems and consider impact of changes on Councils risk profile
5.14	Review Council's risk profile and the changes occurring in the profile
5.23	Quarterly report to review progress on delivery of annual internal audit plan
5.24	Quarterly review and approve proposed scopes in the annual internal audit plan
5.25	Review reports on internal audit reviews, including recommendations for improvement arising from those reviews
5.27	Monitor action by management on internal audit findings and recommendations
5.33	Quarterly review to ensure that managements responses to any external audit findings are acted upon in a timely manner
5.34	Quarterly review Victorian Auditor General's Office (VAGO) reports to assess the impacts on Council
5.35	Consider the findings and recommendations of any relevant performance audits undertaken by VAGO and monitor Council's responses to them
7	Annual performance evaluation