



Ararat Rural City



Ararat Rural City

MINUTES

Audit and Risk Committee

Tuesday 4 March 2024

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

Commencing at 1:00 pm

Audit and Risk Committee:

Cr Jo Armstrong (Mayor)

Cr Bob Sanders

Ms Jessica Adler

Mr Greg Jakob

Ms Zoe Allen

In attendance:

Dr Tim Harrison

Mr Bradley Ead

Mr Ryan Schischka

Ms Karissa Hogan

Mrs Chandra Willmott

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SECTION 1 – PROCEDURAL MATTERS

1.1 APOLOGIES

Dr Tim Harrison was an apology

1.2 DECLARATION OF DISCLOSURE OF INTERESTS

No disclosure of Interests

1.3 CONFIRMATION OF MINUTES

RECOMMENDATION

That the Minutes of the Internal Audit and Risk Committee Meeting held on 03 September 2024 be received.

MOVED Jessica Adler
SECONDED Greg Jakob

That the Minutes of the Internal Audit and Risk Committee Meeting held on 03 September 2024 be received.

CARRIED

SECTION 2- CEO UPDATE

2.1 CEO UPDATE – CONFIDENTIAL

The CEOs report will be circulated prior to the meeting

RECOMMENDATION

That the CEO's report be received.

RECEIVED

ATTACHMENTS

CEO Confidential Report provided as Attachment 2.1

SECTION 3- FINANCE AND PERFORMANCE REPORTING

3.1 QUARTERLY PERFORMANCE REPORT – ENDING 30 SEPT 2024

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.

EXECUTIVE SUMMARY

The financial statements and performance indicators have been prepared for the period ended 30 September 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 \$26.097 million in revenue and \$9.198 million in expenses to 30 September 2024. This has resulted in an operating surplus of \$16.899 million for the three months ended 30 September 2024.

Income

Rates and charges account for 50% of the total budgeted income for 2024/25. Rates and charges are recognised when the rates have been raised, not when the income has been received. An amount of \$17.482 million has been recognised as income for the three months ended 30 September 2024.

User fees account for 4% of the total budgeted income for 2024/25 and \$0.539 million has been received to 30 September 2024. The majority of this relates to transfer station fees, fitness centre income and commercial waste management charges.

Recurrent Operating Grants total \$7.425 million to 30 September 2024, including \$4.221 million from the Victorian Local Government Grants Commission for general purpose grants and \$2.736 million for the local road’s grants.

Non-recurrent Operating Grants total \$0.024 million to 30 September 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 2024/25 \$'000 | Income 2024/25 \$'000 | Unearned Income \$'000 |
|---------------------------------------|-----------------------------|-----------------------------|------------------------------|
| Non-Recurrent Operating Grants | | | |
| Ararat Housing Transition | - | - | 300 |

| | | | |
|--|-----------|-----------|--------------|
| Digital Twin Victoria | - | - | 954 |
| Free Public Wi-Fi Services | - | - | 1,196 |
| Supported Playgroups | 65 | 16 | - |
| Ararat Rural City Sport, Active Recreation & Open Space Strategy | - | - | 36 |
| Tiny Towns Fund - Pomonal Community Hub | - | - | 200 |
| Tiny Towns Fund - Buangor Recreation Reserve Pavillion Redevelopment | - | - | 25 |
| Other Minor Grants (under \$30,000) | - | 8 | - |
| | 65 | 24 | 2,711 |

Non-recurrent Capital Grants have not been received in the three months to 30 September 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 2024/25 \$'000 | Income 2024/25 \$'000 | Unearned Income \$'000 |
|---------------------------------------|-----------------------------|-----------------------------|------------------------------|
| Non-Recurrent Capital Grants | | | |
| Mt William Road reconstruction | 5,000 | - | - |
| Buangor-Ben Nevis Road reconstruction | 843 | - | - |
| Pedestrian Infrastructure Program | - | - | 70 |
| Tatyoon Oval Upgrade Grant | - | - | 225 |
| | 5,843 | - | 295 |

Note

It is important to note the following:

1. Unearned revenue received in prior years has been adjusted between the Original Budget and Current Budget with an additional \$2.936 million for Grants Operating (non-recurrent), \$0.366 million for Grants Capital (recurrent) and \$0.070 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 2024/25 financial year.
2. These changes in the budget, plus the note reported under expenses, create a change in the reported surplus position from a projected surplus of \$8.163 million to a surplus of \$9.205 million for 2024/25. The year-end variance is a deficit of \$0.612 million when the actual year to date expenses are compared to the year-to-date budget.

Expenses

Employee Costs account for approximately 40% of the total budgeted expenditure for 2024/25. For the three months ended 30 September 2024 Council has incurred \$2.778 million in employee costs.

Materials and Services account for approximately 29% of the total budgeted expenditure for 2024/25. For the three months ended 30 September 2024, Council has incurred \$3.815 million in materials and services costs. There are a number of projects, including those carried forward from 2023/24 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 \$8.259 million in the Original Budget to \$10.589 million in the Current Budget for 2024/25. This has resulted from a carry forward amount of \$2.330 million from the 2023/24 financial year surplus and unspent grant funds which will be used for additional activity in 2024/25.

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 30 September 2024. Comparative figures have been provided as at 30 June 2024.

Council’s current assets have increased by \$16.455 million from \$11.732 million as at 30 June 2024 to \$28.187 million as at 30 September 2024. Cash and cash equivalents have increased by \$5.377 million from \$3.049 million to \$8.426 million. Trade and other receivables have increased by \$14.468 million from \$5.212 million as at 30 June 2024 to \$19.680 million as at 30 September 2024.

Total liabilities have decreased from \$8.777 million in 2023/24 to \$8.730 million in 2024/25. Trade and other payables have increased by \$0.256 million and trust funds and deposits have increased by \$0.170 million. Unearned income/revenue decreased by \$0.366 million, which 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 \$3.049 million have increased by \$5.377 million to \$8.426 million as at 30 September 2024.

Net cash of \$5.213 million was provided by operating activities, \$0.291 million was provided by investing activities, and \$0.127 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 | 30/6/2024 | 30/9/2024 |
|--|-----------|-----------|
| <p>Working capital Measure - Current assets compared to current liabilities. 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> | 162% | 392% |

| Indicator | 30/6/2024 | 30/9/2024 |
|--|-----------|-----------|
| <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> | 1.71% | 1.53% |
| <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> | 7.49% | 8.48% |
| <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> | 73.82% | 66.99% |
| <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 expenditure suggests an improvement in organisational efficiency</p> | \$4,592 | \$1,238 |
| <p>Indicator - Revenue level <i>Measure - Average residential rate per residential property assessment</i> Expected values in accordance with the Local Government Performance Reporting Framework - \$700 to \$2,000 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> | \$1,993 | \$2,001 |
| <p>Indicator – Percentage of total rates collected 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. As at 30 September 2024 the outstanding Rates Debtors totalled \$16.480 million compared to \$2.320 million as at 30 June 2024, an increase of \$14.160 million. In percentage terms 18.1% of the rates raised have been collected at 30 September 2024 compared to 14.9% up to 30 September 2023. Outstanding rates are currently charged 10% interest. Council issues approximately 7,900 rate notices. In 2024/25 there are 2,158 assessments paying by instalments compared with 2,640 assessments in 2023/24.</p> | 88.1% | 18.1% |

| Indicator | 30/6/2024 | 30/9/2024 |
|--|-----------|-----------|
| <p>Indicator – Asset Renewal & Upgrade <i>Measure - Asset renewal & Upgrade compared to depreciation</i> Expected range in accordance with the Local Government Performance Reporting Framework – 40% to 130% 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> | 124.63% | 108.83% |

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 quarter to pay for the outstanding accounts at year end.

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 30 September 2024 be received.

Committee held off on recommendation until they receive all financial reports at the end of item 3.3

ATTACHMENTS

Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators for the period ended 30 September 2024 are provided as Attachment 3.1

3.2 QUARTERLY PERFORMANCE REPORT – ENDING 31 DEC 2024

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.

INTRODUCTION

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

Based on the information provided by responsible officers and managers Council’s overall financial performance is in line with budget. It has been determined that a revised budget is not required at this stage.

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 \$27.841 million in revenue and \$17.647 million in expenses to 31 December 2024. This has resulted in an operating surplus of \$10.194 million for the six months ended 31 December 2024.

Income

Rates and charges account for 50% of the total budgeted income for 2024/25. Rates and charges are recognised when the rates have been raised, not when the income has been received. An amount of \$17.670 million has been recognised as income for the six months ended 31 December 2024.

User fees account for 4% of the total budgeted income for 2024/25 and \$0.963 million has been received to 31 December 2024. The majority of this relates to transfer station fees, fitness centre income and commercial waste management charges.

Recurrent Operating Grants total \$7.936 million to 31 December 2024, including \$4.402 million from the Victorian Local Government Grants Commission for general purpose grants and \$2.856 million for the local roads grants.

Non-recurrent Operating Grants total \$0.246 million to 31 December 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.

| Non-Recurrent Operating Grants | Budget 2024/25 \$'000 | Income 2024/25 \$'000 | Unearned Income \$'000 |
|--------------------------------|-----------------------------|-----------------------------|------------------------------|
| Ararat Housing Transition | - | - | 300 |
| Digital Twin Victoria | - | - | 954 |
| Free Public WiFi Services | - | - | 1,196 |
| Supported Playgroups | 65 | 16 | - |

| | | | |
|--|-----------|------------|-------------|
| Ararat Rural City Sport, Active Recreation & Open Space Strategy | - | - | 36 |
| Tiny Towns Fund - Pomonal Community Hub | - | - | 200 |
| Tiny Towns Fund - Buangor Recreation Reserve Pavillion Redevelopment | - | - | 25 |
| Natural Disaster Relief | - | 98 | - |
| Other Minor Grants (under \$30,000) | - | 67 | - |
| | 65 | 246 | 2711 |

Non-recurrent Capital Grants have not been received in the six months to 31 December 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.

| Non-Recurrent Capital Grants | Budget 2024/25 \$'000 | Income 2024/25 \$'000 | Unearned Income \$'000 |
|---------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
| Mt William Road reconstruction | 5,000 | - | - |
| Buangor-Ben Nevis Road reconstruction | 843 | - | - |
| Pedestrian Infrastructure Program | - | - | 70 |
| Tatyoon Oval Upgrade Grant | - | 225 | - |
| | 5,843 | 225 | 70 |

Note

It is important to note the following:

1. Unearned revenue received in prior years has been adjusted between the Original Budget and Current Budget with an additional \$2.936 million for Grants Operating (non-recurrent), \$0.366 million for Grants Capital (recurrent) and \$0.070 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 2024/25 financial year.
2. These changes in the budget, plus the note reported under expenses, create a change in the reported surplus position from a projected surplus of \$8.163 million to a surplus of \$9.205 million for 2024/25. The year-end variance is a deficit of \$1.320 million when the actual year to date expenses are compared to the year to date budget.

Expenses

Employee Costs account for approximately 40% of the total budgeted expenditure for 2024/25. For the six months ended 31 December 2024 Council has incurred \$6.071 million in employee costs, which includes additional wages of \$0.090 million for emergency management relief and recovery. Workcover premiums have increased by \$0.104 million compared to 2023/24.

Materials and Services account for approximately 29% of the total budgeted expenditure for 2024/25. For the six months ended 31 December 2024, Council has incurred \$6.371 million in materials and services costs. There are a number of projects, including those carried forward from 2023/24 that are expected to be completed before the end of the financial year.

Depreciation totals \$4.873 million to 31 December 2024. The higher than budgeted depreciation has resulted from increased asset valuations being received as at 30 June 2024 after the budget was finalised.

Note

It is important to note the following:

There has been an increase in expenditure on materials and services from \$8.259 million in the Original Budget to \$10.589 million in the Current Budget for 2024/25. This has resulted from a carry forward amount of \$2.330 million from the 2023/24 financial year surplus and unspent grant funds which will be used for additional activity in 2024/25.

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 December 2024. Comparative figures have been provided as at 30 June 2024.

Council’s current assets have increased by \$8.145 million from \$11.732 million as at 30 June 2024 to \$19.877 million as at 31 December 2024. Cash and cash equivalents have increased by \$0.629 million from \$3.049 million to \$3.678 million. Trade and other receivables have increased by \$10.895 million from \$5.212 million as at 30 June 2024 to \$16.107 million as at 31 December 2024.

Total liabilities have decreased from \$8.777 million in 2023/24 to \$7.226 million in 2024/25. Trade and other payables have decreased by \$0.525 million and trust funds and deposits have decreased by \$0.215 million. Unearned income/revenue decreased by \$0.591 million, which 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 \$3.049 million have increased by \$0.629 million to \$3.678 million as at 31 December 2024.

Net cash of \$3.209 million was provided by operating activities, \$2.326 million was used in investing activities, and \$0.253 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 | 30/6/2024 | 30/9/2024 | 31/12/2024 |
|--|-----------|-----------|------------|
| <p>Working capital Measure - Current assets compared to current liabilities. 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> | 162% | 392% | 350% |
| <p>Loans and borrowings Measure - Loans and borrowings compared to rates. Expected values in accordance with the Local Government Performance Reporting Framework – 0% to 70%</p> | 1.71% | 1.53% | 1.30% |

| Indicator | 30/6/2024 | 30/9/2024 | 31/12/2024 |
|---|-----------|-----------|------------|
| 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>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%</p> <p>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> | 7.49% | 8.48% | 8.14% |
| <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%</p> <p>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> | 73.82% | 66.99% | 64.04% |
| <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</p> <p>Indicator of the broad objective that resources should be used efficiently in the delivery of services. Low or decreasing level of expenditure suggests an improvement in organisational efficiency</p> | \$4,592 | \$1,238 | \$2,374 |
| <p>Indicator - Revenue level <i>Measure - Average residential rate per residential property assessment</i> 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> | \$1,993 | \$2,001 | \$2,001 |
| <p>Indicator – Percentage of total rates collected 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. As at 31 December 2024 the outstanding Rates Debtors totalled \$13.704 million compared to \$2.320 million as at 30 June 2024, an increase of \$11.384 million. In percentage terms 31.9% of the rates raised have been collected at 31 December 2024 compared to 31.5% up to 31 December 2023. Outstanding rates are currently charged 10% interest.</p> | 88.1% | 18.1% | 31.9% |

| Indicator | 30/6/2024 | 30/9/2024 | 31/12/2024 |
|--|-----------|-----------|------------|
| Council issues approximately 7,900 rate notices. In 2024/25 there are 2,158 assessments paying by instalments compared with 2,640 assessments in 2023/24. | | | |
| <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> | 124.63% | 108.83% | 108.50% |

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 quarter to pay for the outstanding accounts at year end. Lump sum payment of rates are due on 15 February 2025.

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 Improvements

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 will now be published monthly.

RECOMMENDATION

That the Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators for the period ended 31 December 2024 be received.

Committee held off on recommendation until they receive all financial reports at the end of item 3.3

Attachments

Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators for the period ended 31 December 2024 are provided as Attachment 3.2

3.3 QUARTERLY PERFORMANCE REPORT – ENDING 31 JAN 2025

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.

INTRODUCTION

The financial statements and performance indicators have been prepared for the period ended 31 January 2025.

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 \$28.193 million in revenue and \$19.879 million in expenses to 31 January 2025. This has resulted in an operating surplus of \$8.314 million for the seven months ended 31 January 2025.

Income

Rates and charges account for 50% of the total budgeted income for 2024/25. Rates and charges are recognised when the rates have been raised, not when the income has been received. An amount of \$17.847 million has been recognised as income for the seven months ended 31 January 2025.

User fees account for 4% of the total budgeted income for 2024/25 and \$1.049 million has been received to 31 January 2025. The majority of this relates to transfer station fees, fitness centre income and commercial waste management charges.

Recurrent Operating Grants total \$7.967 million to 31 January 2025, including \$4.402 million from the Victorian Local Government Grants Commission for general purpose grants and \$2.856 million for the local roads grants.

Non-recurrent Operating Grants total \$0.282 million to 31 January 2025. 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.

| Non-Recurrent Operating Grants | Budget 2024/25 \$'000 | Income 2024/25 \$'000 | Unearned Income \$'000 |
|--------------------------------|-----------------------------|-----------------------------|------------------------------|
| Ararat Housing Transition | - | - | 300 |
| Digital Twin Victoria | - | - | 954 |
| Free Public WiFi Services | - | 47 | 1,196 |
| Supported Playgroups | 65 | 40 | - |

| | | | |
|--|-----------|------------|-------------|
| Ararat Rural City Sport, Active Recreation & Open Space Strategy | - | - | 36 |
| Tiny Towns Fund - Pomonal Community Hub | - | - | 200 |
| Tiny Towns Fund - Buangor Recreation Reserve Pavillion Redevelopment | - | - | 25 |
| Natural Disaster Relief | - | 128 | - |
| Other Minor Grants (under \$30,000) | - | 67 | - |
| | 65 | 282 | 2711 |

Non-recurrent Capital Grants total \$0.212 million to 31 January 2025, 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.

| Non-Recurrent Capital Grants | Budget 2024/25 \$'000 | Income 2024/25 \$'000 | Unearned Income \$'000 |
|---------------------------------------|--------------------------------------|--------------------------------------|---------------------------------------|
| Mt William Road reconstruction | 5,000 | - | - |
| Buangor-Ben Nevis Road reconstruction | 843 | - | - |
| Pedestrian Infrastructure Program | - | - | 70 |
| Tatyoon Oval Upgrade Grant | - | 212 | 13 |
| | 5,843 | 212 | 83 |

Note

It is important to note the following:

1. Unearned revenue received in prior years has been adjusted between the Original Budget and Current Budget with an additional \$2.936 million for Grants Operating (non-recurrent), \$0.366 million for Grants Capital (recurrent) and \$0.070 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 2024/25 financial year.
2. These changes in the budget, plus the note reported under expenses, create a change in the reported surplus position from a projected surplus of \$8.163 million to a surplus of \$9.205 million for 2024/25. The year-end variance is a deficit of \$1.322 million when the actual year to date expenses are compared to the year to date budget.

Expenses

Employee Costs account for approximately 40% of the total budgeted expenditure for 2024/25. For the seven months ended 31 January 2025 Council has incurred \$7.116 million in employee costs, which includes additional wages for emergency management relief and recovery and organisation restructure costs. Workcover premiums have increased by \$0.104 million compared to 2023/24.

Materials and Services account for approximately 29% of the total budgeted expenditure for 2024/25. For the seven months ended 31 January 2025, Council has incurred \$6.691 million in materials and services costs. There are a number of projects, including those carried forward from 2023/24 that are expected to be completed before the end of the financial year.

Depreciation totals \$5.683 million to 31 January 2025. The higher than budgeted depreciation has resulted from increased asset valuations being received as at 30 June 2024 after the budget was finalised.

Note

It is important to note the following:

There has been an increase in expenditure on materials and services from \$8.259 million in the Original Budget to \$10.589 million in the Current Budget for 2024/25. This has resulted from a carry forward amount of \$2.330 million from the 2023/24 financial year surplus and unspent grant funds which will be used for additional activity in 2024/25.

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 January 2025. Comparative figures have been provided as at 30 June 2024.

Council’s current assets have increased by \$6.821 million from \$11.732 million as at 30 June 2024 to \$18.553 million as at 31 January 2025. Cash and cash equivalents have increased by \$0.653 million from \$3.049 million to \$3.702 million. Trade and other receivables have increased by \$9.540 million from \$5.212 million as at 30 June 2024 to \$14.752 million as at 31 January 2025.

Total liabilities have decreased from \$8.777 million in 2023/24 to \$7.145 million in 2024/25. Trade and other payables have decreased by \$0.810 million and trust funds and deposits have decreased by \$0.029 million. Unearned income/revenue decreased by \$0.537 million, which 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 \$3.049 million have increased by \$0.653 million to \$3.702 million as at 31 January 2025.

Net cash of \$3.463 million was provided by operating activities, \$2.486 million was used in investing activities, and \$0.324 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 | 30/6/2024 | 31/01/2025 |
|--|-----------|------------|
| <p>Working capital Measure - Current assets compared to current liabilities. 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> | 162% | 333% |
| <p>Loans and borrowings Measure - Loans and borrowings compared to rates. Expected values in accordance with the Local Government Performance Reporting Framework – 0% to 70%</p> | 1.71% | 1.08% |

| Indicator | 30/6/2024 | 31/01/2025 |
|---|-----------|------------|
| 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>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%</p> <p>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> | 7.49% | 8.17% |
| <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%</p> <p>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> | 73.82% | 63.84% |
| <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</p> <p>Indicator of the broad objective that resources should be used efficiently in the delivery of services. Low or decreasing level of expenditure suggests an improvement in organisational efficiency</p> | \$4,592 | \$2,669 |
| <p>Indicator - Revenue level <i>Measure - Average residential rate per residential property assessment</i> 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> | \$1,993 | \$1,999 |
| <p>Indicator – Percentage of total rates collected 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. As at 31 January 2025 the outstanding Rates Debtors totalled \$12.692 million compared to \$2.320 million as at 30 June 2024, an increase of \$10.372 million. In percentage terms 37.0% of the rates raised have been collected at 31 January 2025 compared to 31.9% up to 31 December 2024. Outstanding rates are currently charged 10% interest. Council issues approximately 7,900 rate notices. In 2024/25 there are 2,158 assessments paying by instalments compared with 2,640 assessments in 2023/24.</p> | 88.1% | 37.0% |
| <p>Indicator – Asset Renewal & Upgrade <i>Measure - Asset renewal & Upgrade compared to depreciation</i> Expected range in accordance with the Local Government Performance Reporting Framework – 40% to 130%</p> | 124.63% | 95.86% |

| Indicator | 30/6/2024 | 31/01/2025 |
|--|-----------|------------|
| 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. | | |

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 quarter to pay for the outstanding accounts at year end. Lump sum payment of rates are due on 15 February 2025.

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 Improvements

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 will now be published monthly.

RECOMMENDATION

That the Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators for the period ended 31 January 2025 be received and which includes the recommendations from item 3.1 and 3.2

RECEIVED

Attachments

Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators for the period ended 31 January 2025 are provided as Attachment 3.3

ACTIONS:

Include an additional column on the Balance Sheet in future monthly reports with the comparative year-to-date figures from the previous financial year

Provide further breakdown of the profit and loss figures to show separate details of carry forward transfers, grant funded projects and operations

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.

BACKGROUND

Council policies are reviewed on an ongoing and procedure review process. This report outlines two Administrative and Council Policies which are currently being reviewed.

DISCUSSION

Council has committed to reviewing policies through 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 the Depot and Municipal Offices and on Council website.

The below table outlines all policies that will be presented to the Audit and Risk Committees as they come up for review.

| Council Policy | Due | Audit and Risk Committee |
|--|--------|--------------------------|
| Asset Management Policy | Jan-15 | Sep-24 |
| Audit and Risk Committee Charter | Apr-24 | Apr-24 |
| Community Engagement Policy | Feb-25 | Mar-25 |
| Complaints Handling Policy | Mar-25 | Mar-25 |
| Compliance Framework and Policy | New | Dec-24 |
| Council Expenses and Support Policy | Jul-22 | Jun-24 |
| Councillor Code of Conduct | Dec-24 | Dec-24 |
| Councillor Gifts Policy | Feb-25 | Mar-25 |
| Election Period 2020 Policy | Apr-24 | Apr-24 |
| Fraud and Corruption Policy | Apr-24 | Apr-24 |
| International and Interstate Travel Policy | Mar-24 | Jun-24 |
| Investment Policy | Feb-25 | Mar-25 |
| Prevention of Sexual Harassment Policy | Sep-24 | Sep-24 |
| Privacy Policy (<i>prev Privacy & Data Protection & Health Records Policy</i>) | Jan-25 | Dec-24 |
| Procurement Policy | Jun-24 | Sep-24 |
| Public Transparency Policy | Jul-24 | Jun-24 |
| Risk Management Policy | Apr-24 | Apr-24 |
| Social Media Policy | Mar-24 | Sep-24 |
| Valuation Policy - Major Asset Classes | May-26 | Mar-26 |
| Administration Policy | | |

| | | |
|---|--------|--------|
| Conflict of Interest Policy | Aug-24 | Sep-24 |
| Corporate Purchase Card Policy | Nov-23 | Sep-24 |
| Disposal and Sale of Items at Transfer Station Policy | Mar-26 | Mar-26 |
| Disposal and sale of minor assets policy | Sep-25 | Sep-25 |
| Equal Employment Opportunity Policy | Mar-26 | Mar-26 |
| Equity, Diversity and Inclusion Policy | Dec-24 | Dec-24 |
| Essential Safety Measures Policy | Mar-24 | Sep-24 |
| Health and Wellbeing Policy | Mar-24 | Sep-24 |
| Injury Management Policy | Sep-25 | Sep-25 |
| Municipal Emergency Policy | May-25 | Mar-25 |
| Occupational Health and Safety Policy | Nov-22 | Sep-24 |
| OHS Workplace Emergency Evacuation Policy | Nov-25 | Dec-25 |
| Prevention of Sexual Harassment in the Workplace | Aug-24 | Sep-24 |
| Public Interest Disclosures Procedure | Jan-24 | Jun-24 |
| Risk Management Framework | Apr-24 | Apr-24 |
| Staff Code of Conduct | Aug-25 | Sep-25 |
| Staff Gift Policy | Sep-25 | Sep-25 |
| Staff Grievances Policy | Mar-23 | Sep-24 |
| Vehicle Policy | Sep-22 | Sep-24 |
| Workplace Anti Discrimination & Harassment Policy | Feb-23 | Sep-24 |

There are five policies / frameworks being presented for review at this meeting which are:

- Corporate credit card policy
- Equity, diversity and inclusion policy
- Councillor Code of Conduct
- Governance Rules
- Social Media Policy

The table below provides a list of the reviewed policies noting the main changes and a copy of the policies with track changes are attached.

| Administrative / Council | Policy Title | Last review and adopted | Current Review Date ready for Adoption | Next Review |
|--------------------------|---------------------------------|-------------------------|--|---------------|
| Administrative | Corporate credit card | 31 January 2023 | November 2024 | October 2027 |
| Administrative | Equity, diversity and inclusion | December 2020 | December 2024 | December 2028 |
| Council | Councillor Code of Conduct | 15 December 2020 | 28 th January 2024 | January 2028 |
| Council | Governance Rules | 25 October 2022 | 25 March 2025 | January 2027 |
| Council | Social Media Policy | 16 March 2021 | 25 February 2025 | February 2028 |

The review of the corporate credit card policy is timely as Council are changing of service providers from ANZ to Commonwealth bank. The policy outlines the responsibility of the card holders, compliance responsibilities, and as the

distribution of new corporate credit cards occurs, each card holder will complete the corporate purchase card application and acknowledgement.

In relation to the Equity, diversity and inclusion policy ,the differences between the original and this policy is that the reviewed policy is more structures, incorporating detailed responsibilities, monitoring protocols, and a clear set of commitments on respectful behaviour and workplace safety, while the original policy is broader, focusing on a general cultural respect, inclusion, and diversity without extensive procedural details.

In October 2024, the Department of Government Services updated the Model Councillor Code of Conduct. A review of the model against the current Councillor Code of Conduct has occurred with on minor administrative changes being made. Councillors will undertake the review at the Council briefing prior to adoption at the January 2025 Council Meeting.

In accordance with Section 60 of the Local Government Act 2020, Council is required to adopt and keep in force Governance Rules. The last Governance Rules were adopted on 27 September 2022 and these rules have been changed mainly for a better flow and use more concise language. If in future, Model Rules for Governance are developed we will then implement them.

The Social Media Policy was last adopted on the 16 March 2021. A review of this policy has been conducted with the Media Team. The changes made to this policy are on page 2 to include some additional wording on some new platforms, and on page 8 with some additional wording with 2.4.23 Be responsive. Other than that there is some minor administrative and editorial corrections.

RECOMMENDATION

That the Council Policy Review Update be noted.

NOTED

ATTACHMENTS

- Draft review of Corporate Credit Card Policy is attached as Attachment 4.1.1
- Draft review of Equity, diversity and inclusion policy is attached as Attachment 4.1.2
- Draft review of Councillor Code of Conduct is attached as Attachment 4.1.3
- Draft review of Social Media Policy is attached as Attachment 4.1.4
- Draft review of Governance Rules is attached as Attachment 4.1.5

ACTION:

- To update the list of when each policy is being tabled at the Audit and Risk Committee and to review if the Asset Management Policy is required moving forward
- The Corporate Credit Card Policy to be distributed to members once the updates discussed are embedded.

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: Governance, Legislative compliance and business continuity. 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 received.

RECEIVED

ATTACHMENTS

The Strategic Risk Register is provided as Attachment 5.1

ACTION:

Strategic Risks schedule to be updated to reflect the new year.

Plan training sessions to help engage Leads of the responsibilities of risk management at all levels

SECTION 6- FRAUD PREVENTION

6.1 REVIEW COUNCIL'S FRAUD PREVENTION POLICY AND CONTROLS

Aligns with Audit and Risk Committee Charter 5.18 Review Council's Fraud Prevention policies and controls, including the Fraud Control Plan and fraud awareness programs.

BACKGROUND

Council policies are reviewed on an ongoing and procedure review process.
The Audit and Risk Charter states that the committee will review the Fraud and Corruption Policy annually.

DISCUSSION

An internal audit was completed in 2024 in relation to Fraud and Corruption and the findings will be discussed in agenda item 7.4.

These findings have identified some gaps in the Fraud and Corruption Policy and Plan which could compromise the effectiveness of the fraud and corruption risk framework and key areas were identified to strengthen the Policy

These changes will be incorporated into the Policy and Plan and presented at the next Audit and Risk Committee

Council also uses an eLearning package that includes Fraud and Corruption which is rolled out every 2 years and is a generic product for Local Government which is not customized to the ARCC specific fraud and corruption policies and procedures.

Council is committed to adapting this eLearning to provide a more tailored approach to the ARCC policy and plan and this will become an onboarding training tool as well as a becoming a yearly review for all employees.

RECOMMENDATION

That the Fraud and Corruption Policy and Plan as well as the updated training be presented at the June Audit and Risk Committee meeting

NOTED

ATTACHMENTS

There are no attachments

SECTION 7- INTERNAL AUDIT

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

Aligns with Audit and Risk Committee Charter 5.21 Quarterly review and approve proposed scopes in the annual internal audit plan. 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 Status Update.

At the request of management, The Risk Assessment and preparation of a new five-year Strategic Internal Audit Program has been deferred from November 2024 to January 2025 due to the Council elections occurring in late October 2024

AFS has now completed the Risk Assessment and developments a new five year rolling Strategic Internal Audit Program (SIAP) and is attached for your consideration.

The purpose of this review is to :

- Current status of topics
- The new 5 year Strategic Internal Audit Program

RECOMMENDATION

The Strategic Internal Audit Program Status Update report be noted.
The new 5 year Strategic Internal Audit Program be adopted.

MOVED Jess Adler
SECONDED Greg Jakob

The Strategic Internal Audit Program Status Update report be noted.
The new 5 year Strategic Internal Audit Program be adopted. (Subject to clarification of records management audit)

CARRIED

ATTACHMENTS

The strategic Internal Audit Program Update report is provided as Attachment 7.1.1
The Risk Assessment and Strategic Internal Audit Program is provided as Attachment 7.1.2

ACTIONS:

AFS to meet with ARCC to discuss the Records Management internal audit timing and look at pushing this out further.
Suggestion to put internal audits on hold to give time for ARCC to catch up on outstanding of recommendations.

7.2 INTERNAL AUDIT – AUDIT REVIEW OUTCOMES UPDATE

Aligns with Audit and Risk Committee Charter 5.27 Monitor action by management on 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 Recommendation Action Plan was developed to capture the recommendations highlighted in the various internal audits conducted by AFS.

AFS, as the internal auditors, conduct reviews of the audits to confirm that the actions taken by management have addressed the risks raised by internal audits. The review focuses on the internal audit agreed management actions where a risk rating was assigned to the issue raised and management has actioned the agreed management action.

AFS has found 5 moderate findings and 6 minor findings to now be completed and attached is the full past issues review which will outline each on these findings.

The Audit Recommendation Outcomes Action Plan, list the recommendations and subsequent outcomes and projected completion dates.

RECOMMENDATION

The Audit Recommendation Outcome Updates report be received

RECEIVED

ATTACHMENTS

The Audit Recommendation Outcomes Update Action Plan is included as Attachment 7.2.1

The Internal Audit Report Past issues review is included as Attachment 7.2.2

7.3 INTERNAL AUDIT – OVERHEAD ALLOCATION REVIEW

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 reviewing the Overhead Allocations.

DISCUSSION

The objectives of the review were to determine the accuracy and appropriateness of ARCC’s cost and overhead allocation for capitalisation and grant acquittal purposes.

The audit concluded there were 8 areas of strength with 4 moderate finding and 1 minor finding.

All recommendations suggested to management have been agreed to. An update on the progress of the agreed to action items will be provided at the March 2025 Audit & Risk Committee meeting.

RECOMMENDATION

That the Overhead Allocation Review report be received.

RECEIVED

ATTACHMENTS

The AFS & Associate Audit of the Overhead Allocation Review report is provided as Attachment 7.3

7.4 INTERNAL AUDIT – FRAUD AND CORRUPTION FRAMEWORK

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 Fraud and Corruption Framework

DISCUSSION

The objective was to ensure a suitable framework for fraud and corruption detection and prevention is in place.

The audit concluded there were 11 areas of strength and 1 moderate and 4 minor findings. There is also 1 opportunity. All recommendations suggested to management have been agreed to. An update on the progress of the agreed to action items will be provided at the March 2025 Audit & Risk Committee meeting.

RECOMMENDATION

That the findings from the Fraud and Corruption Framework audit be received.

RECEIVED

ATTACHMENTS

The AFS & Associate Audit of the Fraud and Corruption Audit report is provided as Attachment 7.4

SECTION 8- EXTERNAL AUDIT

8.1 EXTERNAL AUDIT - AUDIT STRATEGY FOR THE FINANCIAL YEAR ENDING 30 JUNE 2025

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 2025.

DISCUSSION

An audit strategy has been prepared to communicate to Council the proposed approach to the audit of its Financial Report and Performance Statement for the year ending 30 June 2025.

The Audit Act 1994 requires the Auditor-General to form an opinion on Council's Financial Report and Performance Statement.

When undertaking the financial audit, Section 3A of the Audit Act 1994 requires the Auditor-General to also consider the issues of waste, probity, and the prudent use of public resources.

The Performance Statement contains financial and non-financial data. Financial systems are predominantly established to capture financial data. Part of the audit is to review the systems that Council has in place to capture the financial data and non-financial data to ensure compliance with legislative requirements.

Mr Ryan Schischka of Johnsons MME will attend the meeting remotely to present the draft Audit Strategy

RECOMMENDATION

That the audit strategy memorandum for the financial year ending 30 June 2025 be received.

RECEIVED

ATTACHMENTS

The draft Audit Strategy Memorandum is provided as Attachment 8.1

SECTION 9- COMPLIANCE

9.1 COMPLIANCE FRAMEWORK & POLICY

Aligns with Audit and Risk Committee Charter 5.10 Ensure that a program is in place to test compliance with systems and controls and 5.11 Assess whether the control environment is consistent with Council’s Governance Principles and 5.37 Review the systems and processes implemented by Council for monitoring compliance relevant legislation and regulation.

BACKGROUND

AFS & Associates (AFS) are Council’s Internal Auditors and in March 2023 conducted an internal audit which focused on Governance. One recommendation from this audit was that Council developed a Compliance Management Framework.

DISCUSSION

During the audit it was identified that ARCC has an informal, decentralized approach to compliance management that was not supported by a Compliance Management Framework. The risk for not having a Compliance Framework is that compliance obligations or modifications to obligations may not be identified or responded to appropriately resulting in non-compliance. Non-compliance with legislation and regulations can have varying impacts including:

- Fines and penalties
- Temporary or permanent cessations of services
- Reputational damage

This framework was developed based on the ISO 37301:2023 Compliance Management systems and is accompanied with the compliance policy and has adopted a “high-level structure” to assist in the implementation of specific compliance and integrity related requirements in any management system. It also outlines the obligations, roles and responsibilities of various employees and the council’s legislative obligations.

The policy provides a rationale and framework for equitable, transparent and consistent approach to compliance activities undertaken by Ararat Rural City Council so the community can be assured that standards are met.

RECOMMENDATION

That the Compliance Framework and Policy be received.

RECEIVED

ATTACHMENTS

The Compliance Framework is provided as Attachment 9.1.1

The Compliance Policy in provided as Attachment 9.1.2

ACTION:

Compliance Framework should be linked to Risk Management System

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 29 recent articles and reports, covering a range of different topics from sources such as: IBAC, IIA, and OVIC etc.

RECOMMENDATION

That the Industry Update report be noted.

NOTED

ATTACHMENTS

The Industry Update report is provided as Attachment 10.1. (December)

The industry Update report is provided as Attachment 10.2 (March)

SECTION 11 – FUTURE MEETINGS

11.1 FUTURE MEETING DATES

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

- Tuesday 3 June 2025 1pm
- Tuesday 2 September 2025 1pm
- Tuesday 2 December 2025 1pm
- Tuesday 3 March 2026 1pm

SECTION 12- NEXT MEETING/CHARTER ITEMS

| June 2025 | |
|--------------------------|---|
| Ref. from Charter | |
| 5.12 | View annually the effectiveness of Council’s risk management framework |
| 5.13 | Review Council’s risk appetite statement and the degree of alignment with Council’s risk profile |
| 5.14 | Review Council’s risk profile and the changes occurring in the profile from meeting to meeting |
| 5.15 | Review Council’s treatment plans for significant risks |
| 5.16 | Review the insurance program annually prior to renewal |
| 5.17 | Review the approach to business continuity planning arrangements. |
| 5.19 | Receive reports from management about actual or suspected instances of fraud or corruption (as required) |
| 5.20 | Review reports by management about the actions taken by Council to report such matters to the appropriate integrity bodies (as required) |
| 5.23 | Review progress on delivery of annual internal audit plan |
| 5.24 | Review and approve proposed scopes for each review in the annual internal audit plan (as required) |
| 5.25 | Review reports on internal audit reviews, including recommendations for improvement arising from those reviews. |
| 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. |
| 5.28 | Review the effectiveness of the internal audit function and ensure that it has appropriate authority within Council and has no unjustified limitations of its work |
| 5.29 | Ensure that the Committee is aware of and appropriately represented regarding any proposed changes to the appointment of the internal audit service provider. (as required) |