



# City of Melbourne Audit and Risk Committee

Biannual Activity Report

February 2021

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## 1. Period of this Report

This report covers Audit and Risk Committee (ARC or Committee) activity from 1 September 2020 to 15 February 2021. In that period the Committee has met twice – on 4 December 2020, which was shortly after the results of the Council elections were announced, and 12 February 2021. This report has been reviewed by and agreed with all Committee members.

## 2. Purpose of this Report

This report meets the reporting requirements to Council as mandated by the Local Government Act 2020 (LGA) pursuant to section 54(5) and importantly provides Council with a summary of the matters that the ARC has addressed in the reporting period in discharging its responsibilities under its Charter. It is the first such report under the new LGA.

The ARC's Charter is set by Council and was last reviewed and approved by Council on 28 July 2020 following the necessary changes required by the new LGA.

The agendas for our meetings are driven by the Committee's Annual Work Plan (AWP) and are fulsome. There is always a challenge to complete the agendas for each meeting. At the meetings held in this reporting period, the key (but not all) matters considered are summarised in the table below.

### Key Matters Considered at Recent Meetings

	Topic	Meeting	
		4 Dec 2020	12 Feb 2021
1.	Revisions to the Committee's AWP to reflect changes in its Charter and as a result, agree changes to the structure of meeting agendas	✓	✓
2.	A periodic update briefing on progress with Council's management of the combustible cladding challenges		✓
3.	An update briefing on progress with Council's City Recovery and Activation plan in response to the impact of CV-19	✓	✓
4.	The outcomes of the following scheduled internal audit reviews:		
	a) Council's performance in completing previously reported internal audit recommendations	✓	
	b) Purchasing and tendering systems and controls	✓	
	c) Cyber security controls	✓	
	d) Volunteer management across all Council business units		✓
5.	Review of terms of reference for internal audit reviews scheduled to commence in the next period	✓	✓

	Topic	Meeting	
		4 Dec 2020	12 Feb 2021
6.	Revisions to the internal audit plan for the year ending 30 June 2021	✓	
7.	The outcomes of the periodic fraud and corruption survey of Council employees	✓	
8.	Review of the recently approved Councillor Code of Conduct and related Protocols		✓
9.	Review of the revised Investment and Strategic Income Policy		✓
10.	Consideration of the external audit strategy proposed by the Victorian Auditor-General's Office (VAGO) for the year ending 30 June 2021;		✓
11.	Consideration of the impact on the Committee's activities of the new Charter requirement to monitor Council compliance with the recently introduced Governance Principles	✓	
12.	An update briefing on the status of Council's risk management programme, including progress on improvements to the risk management framework and changes in Council's risk profile	✓	
13.	Briefings by senior officers of Council's wholly owned subsidiary companies (Citywide Service Solutions Pty Ltd and Queen Victoria Market Pty Ltd)		✓
14.	An update briefing by Council officers on the status of the Queen Victoria Market Precinct Redevelopment programme		✓

### 3. Meetings

The Committee has met twice on 4 December 2020 and 12 February 2021 as indicated above. The usual meeting schedule was deferred to allow the first of the two meetings to be held after the results of the Mayoral and Councillor elections were announced, and thus allow for new Councillor representatives to be appointed to the Committee prior to the December 2020 meeting. Ultimately, at the 4 December 2020 meeting the new Councillor members of the Committee had not been confirmed. This resulted in Councillor Phillip Le Liu attending as the sole Councillor member, his membership of the Committee from the previous Council still being in place. Councillor Jamal Hakim attended as a Councillor, although his membership had not yet been confirmed. Councillor Davydd Griffiths also attended as a guest. Both Councillors Le Liu and Hakim attended the 12 February 2021 meeting.

The independent members of the Committee are Theresa Ryan and Stuart Hall, both of whom are long standing members of the Committee. They bring excellent and relevant skills to the business of the Committee.

Member attendance at the two meetings has been excellent with perfect attendance by all five members.

### **3.1 The Committee's Annual Work Plan**

The Committee has dealt with all matters scheduled for consideration in the ARC AWP in the reporting period.

The recent introduction of the new LGA has impacted the ARC by expanding its' responsibilities, the most notable of these changes being as follows:

- To monitor compliance of Council policies and procedures with the overarching Governance Principles, the LGA and the Regulations and any Ministerial Directions (S54(2)).
- To review expense reimbursements to Councillors and members of Delegated Committees (S40).
- To report to Council twice per annum on the Committee's activities (S54(5)).

Most other changes in the LGA affecting the operations of the Committee were already in place and hence have no significant impact on the Committee's activities. These include (1) adopting an Annual Work Plan for the Committee and (2) undertaking an annual performance assessment of Committee activities against its Charter. All of these changes have been incorporated into the Committee's AWP.

### **3.2 Additional Meetings**

In addition to scheduled Committee meetings, the Committee Chair has met on several occasions with senior Council and subsidiary company officers to deal with ongoing Committee business as follows:

- Liaison with Michael Tonta, Director Governance, who was recently appointed to this role and who as a result has direct responsibility for the proper functioning of and support for the Committee. The focus of these meetings has been about ensuring the ongoing effectiveness of the Committee's activities in light of the new LGA and the recent retirement of Cecilia Digenis, who had been the key support officer for the Committee for several years.
- Meetings with the two Councillor Representatives appointed to the Committee to gain their perspectives on the Committee's activities and the matters that are top of mind for them in the Committee's work programme.
- Liaison with Keith Williamson, General Manager Governance and Organisational Development and Dale Ashley, Coordinator Risk Management related to the tendering of the contract for delivery of internal audit services to Council and its two subsidiaries, Queen Victoria Market and Citywide Service Solutions.
- Liaison with Andrea Waters and Patrick Burroughs, the respective Chairs of the Citywide Service Solutions and Queen Victoria Market ARC's about the impending tender for delivery of internal audit services. The Chair of the Citywide Safety, Risk & Sustainability Committee, Peter Lamell, also attended the meeting with Andrea Waters.

## **4. Key Activities for the Reporting Period**

All members have made valuable contributions to the Committee's work programme and agendas. The work of the ARC has continued to be guided by the Annual Work Plan (AWP) and all matters listed in the AWP for the two scheduled meetings held have been addressed. The AWP is reviewed at the beginning of each meeting to ensure its continued relevance and as noted above it is currently undergoing some change which may continue over the next few meetings. Key outcomes of the scheduled meetings are summarised below.

### **4.1 Combustible Cladding**

The Committee receives half yearly updates on the status of the combustible cladding challenges from officers. The updates provide a briefing on the Statewide initiatives being undertaken at a State Government

level and the initiatives in place at Council. It has been clear to the Committee for some time that the City is taking a lead role in conjunction with the State Government on this challenging matter.

The issue continues to provide challenges to Council officers. Every briefing to the Committee highlights the dynamic nature of the challenges. The Committee has confidence in Council's team with regard to addressing the significant risks and in identifying opportunities to mitigate Council's risks wherever possible. The tools available now to assist with management of these risks have developed significantly over the past two years. The Committee expects that this issue will remain on the significant risk radar for an extended period of time. The next briefing to the Committee will be in August 2021.

## **4.2 CEO Briefing**

The CEO briefed the Committee on the new strategies that the City is developing to deal with the significant impacts of CV-19 through a planned reactivation and recovery programme. It was agreed that the CEO will continue to provide updates to the Committee on this matter due to the significant impact that the pandemic continues to have on the City's risk profile. The updates will focus on the Top Five activation risks for the City.

## **4.3 External Audit**

The Committee considered the draft external audit strategy submitted by VAGO for the audit of the City of Melbourne consolidated annual financial report and the Council annual performance statement for the year ending 30 June 2021 at the February 2021 meeting. There were no significant changes proposed to the strategy in comparison to the previous year.

The Committee referred to the difficulties which arose in completing the audit for the previous financial year whereby the completion of the audit of the annual financial report of Citywide Service Solutions was delayed for various reasons, which resulted in the Committee being required to recommend approval of the consolidated annual financial report to Council prior to the completion of the audit of the Citywide annual financial report. A consequence of these circumstances was that Council was required to approve the consolidated annual financial report prior to VAGO sign-off on the Citywide annual financial report.

The Committee asked VAGO to reconsider some elements of the audit strategy to ensure that there is no recurrence of the delays experienced in 2020. The Committee will consider the external audit strategy again at its May meeting.

## **4.4 Internal Audit**

The Committee received four reports on internal audit reviews completed in the period. These were all scheduled reviews in the 2020/21 internal audit plan. These related to:

- Council's performance in closing out previously reported internal audit recommendations. This report was strongly positive indicating that Council has good controls in place to ensure that recommendations are closed out on time and that remedial actions are effective.
- Purchasing and Tendering – the internal auditor concluded that controls are strong and effective but that some control improvements are required. The Committee noted that management responses to the report indicated acceptance of the recommendations and that the proposed target completion dates for the actions were acceptable. The Committee asked that consideration be given to improving reporting on procurement performance in future and management agreed to this request. The Committee will monitor progress on this matter at future meetings.
- Cyber Security Controls - for this review the internal auditor also noted that controls are strong and effective but concluded that some control improvements are required. The Committee noted that the management responses to recommendations indicated strong acceptance of the need to make the

improvements. Again, the Committee will monitor progress on actions arising from this report at future meetings; and

- Volunteer Management – for this review the internal auditor concluded that controls require further strengthening and improvement. The key recommendation was that Council should implement an overarching volunteer involvement monitoring and evaluation framework. The Committee noted that the management responses to the recommendations indicated strong acceptance of the need to make the improvements. Again, the Committee will monitor progress on actions arising from this report at future meetings.

The Committee accepted a request from management to revise the internal audit plan for the year ending 30 June 2021. The proposed reviews of Workforce Planning, Infringement Management, Major Project Management and Registered Food Premises will be deferred for consideration in the following year. A review of Employee Health and Wellbeing will be included in the current year plan and will proceed along with the Building Legislative Compliance review. It is not unusual to make changes to internal audit plans. Such changes are often driven by changed risk factors, timing issues and even changes in priorities. The key concerns for the Committee when changes are proposed are to ensure that there are valid reasons for change and that reviews being deferred remain on the longer-term internal audit plan where necessary.

The Committee approved the following Terms of Reference for scheduled reviews in the internal audit plan as follows:

- Assess the adequacy and effectiveness of controls related to management of payment card industry data held by Council.
- Assess the adequacy of policies and controls related to management of fraud and corruption risks. The Committee made some suggestions to improve this Terms of Reference and these were accepted by the internal auditors.
- Assess the adequacy of the building legislative compliance processes, including the management framework, policies, procedures and systems.
- Assess the adequacy of management of employee health and wellbeing programmes. This review follows recent revisions by Council of policies and procedures in this area that have led to a programme of improvements currently underway.

The Committee is expected to receive reports from the internal auditor on the outcomes of these reviews at its meeting on 7 May 2021.

The Committee noted that the status of progress with regard to completion of open internal audit recommendations was satisfactory.

## **4.5 Fraud and Corruption Survey**

Council periodically undertakes a survey of employees to assess attitudes towards fraud and corruption risk. The results of the survey conducted in late 2020 were shared with the Committee in late 2020. Survey response rates are always strong, although on this occasion slightly less so due to the impact of CV-19. The Committee noted no significant changes in responses. Fraud and corruption seem to remain top of mind for employees and attitudes towards reporting of incidents and being alert to fraud risk remain healthy.

## **4.6 Internal Control Environment**

The Committee noted the plan for review of Council policies over the four years to 30 June 2024 which will see many significant policies reviewed. At the February 2021 meeting the Committee considered the Councillor Code of Conduct and various related protocols, noting that these were approved toward the end of the term of the previous Council and represented the result of considerable work by officers over the past two years. The Committee noted that the volume of the material related to the Code of Conduct is considerable and that a key

challenge for Councillors and Officers alike will be ensuring that there is adequate knowledge of these documents in order that they can be effectively deployed going forward.

The Committee also considered the new Investment and Strategic Income Policy which had been submitted for review and comment prior to it being submitted to Council for considerations and approval. The Committee made some suggestions for improvement which officers agreed to consider before the policy is submitted to Council.

#### **4.7 Risk Management**

The Committee noted that many improvements to the Risk Management Framework were underway with significant progress made, particularly related to assessment of the effectiveness of controls that Council relies on to mitigate risk. These improvements were the result of an internal audit review in 2020 which identified the opportunities for improvement. The Committee shared its collective experience with management regarding the extension of the improvements proposed and noted that there is still much work to be done regarding this initiative. The Committee welcomed the opportunity to engage further as the work progresses. The Committee is scheduled to further consider this at the 7 May 2021 meeting.

#### **4.8 QVM Precinct Redevelopment Project**

The Committee received an update briefing on the status of the redevelopment project indicating that several project milestones have been concluded, although as also reported by QVM representatives who attended the meeting, the impact of the project on the market's trading operations is growing and hence there is an elevated risk to QVM and trader financial results.

The Committee was advised that key initiatives in coming months will be preparing the EOI process for the Southern Site, Stage Two works and finalisation of the project business case for submission to Council later in the year.

The Committee has asked for a briefing on the business case once it has been finalized.

#### **4.9 Subsidiary Companies**

The Committee receives regular written reports from Council's two wholly owned subsidiary companies, namely Citywide Service Solutions and Queen Victoria Market. In February and August of each year, the Chairs of their ARC's and senior officers attend our Committee meetings to provide opportunities to enhance our understanding of their business's, the strategic challenges they face and the changes in the risk profile of their businesses. The Committee received briefings from representatives of these businesses at the recent February meeting. The key matters that the Committee noted were as follows:

##### Queen Victoria Market

- QVM continues to be severely impacted by CV-19, with many traders requiring ongoing support.
- The Redevelopment Project is now having a significant impact on trading and the impact is expected to increase in 2021, resulting in increased levels of risk for the business.
- Internal audit reviews on QVM's management of the redevelopment programme will commence shortly.

##### Citywide Service Solutions

- The year-to-date financial results are under pressure. Traditionally the business has a significantly stronger second half, so there is some expectation that results will improve by 30 June 2021.



- The business is currently involved in various business acquisitions which will significantly increase its size. The acquisitions are focused on gaining entrée to a new market, namely long-term maintenance contracts in the utilities sector.
- The issue related to Co-Invest has been resolved at a cost of approximately \$600k.
- Citywide has effectively returned to business as usual despite the continuing impact of CV-19 on the economy.
- The rationalization of resources at the head office (in June 2020) is largely settled.

## **5. Matters for Consideration during the Next Reporting Period**

In addition to business as usual matters and matters noted above for consideration at the next meeting, the Committee will consider the following important matters at its next meeting:

- Risk management update.
- Outcomes of the tender process for the awarding of a new internal audit contract.
- Revised external audit strategy.

## **6. Frequency of Activity Reports**

As indicated earlier in this report, these reports are required to be provided to Council at least twice per annum. Following discussions with Councillor representatives on the Committee it was agreed that Council may find more frequent reporting helpful. Accordingly, it is proposed that an activity report will be provided to Council after each Committee meeting. The one exception to that will be in the August/September period when the Committee meets twice within a few weeks. It is proposed that one activity report will cover both meetings.

## **7. Meeting Schedule for 2021**

The Committee's meeting schedule for the remainder of 2021 is as follows:

- 7 May 2021
- 6 August 2021
- 3 September 2021 (Consideration of the annual financial report and the annual performance statement)
- 12 November 2021

## **8. Conclusion**

This is the Committee's first report to Council under the new reporting regime. The Committee welcomes feedback as to whether this report meets Council's expectations. If Council wishes to be briefed by the Committee on any matters raised in this report, I would be delighted to attend as required.

Yours sincerely

Geoff Harry

Chair

On behalf of the Audit & Risk Committee

15 February 2021