



Ararat Rural City



Ararat Rural City

# MINUTES

## Audit and Risk Committee

**Tuesday 6 June 2023**

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

Commenced at 1:28 pm

**Audit and Risk Committee:**

Cr Jo Armstrong (Mayor)

Ms Jessica Adler

Mr Robert Tommasini

Mr Brian Keane

Mr Brad Ead - Attended via Microsoft Teams

Mr Ryan Schischka – Attended via Microsoft Teams

**In attendance:**

Dr Tim Harrison

Ms Karissa Hogan

Mrs Chandra Willmott

Ms Josie Frawley

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## SECTION 1 – PROCEDURAL MATTERS

### 1.1 APOLOGIES

#### OUTCOME

That the apology of Cr Henry Burrige was accepted.

### 1.2 DECLARATION OF DISCLOSURE OF INTERESTS

Disclosure of Interests are to be made immediately prior to any relevant item being discussed.

### 1.3 CONFIRMATION OF MINUTES

#### RECOMMENDATION

*That the Minutes of the Internal Audit and Risk Committee Meeting held on 07 March 2023 were received.*

#### OUTCOME

That the Minutes of the Internal Audit and Risk Committee Meeting held on 07 March 2023 were received.

## SECTION 2- CEO UPDATE

### 2.1 CEO UPDATE – **CONFIDENTIAL**

#### *RECOMMENDATION*

*That the CEO's report be received.*

#### **OUTCOME**

That the CEO's report was received.

#### **ATTACHMENTS**

The Envisioning a Smart Rural City and Essential Services Commission Fact Sheet are provided as Attachment 2.1.

## SECTION 3- FINANCE AND PERFORMANCE REPORTING

### 3.1 QUARTERLY PERFORMANCE REPORT

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.

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#### EXECUTIVE SUMMARY

The financial statements and performance indicators have been prepared for the period ended 31 March 2023.

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

The Quarterly Performance Report was presented to Council at the 18 April 2023 Council Meeting.

#### 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 \$26.338 million in revenue and \$24.240 million in expenses to 31 March 2023. This has resulted in an operating surplus of \$2.098 million for the nine months ended 31 March 2023.

##### *Income*

**Rates and charges** account for 64% of the total budgeted income for 2022/23. Rates and charges are recognised when the rates have been raised, not when the income has been received. An amount of \$17.537 million has been recognised as income for the nine months ended 31 March 2023.

**User fees** account for 5% of the total budgeted income for 2022/23 and \$1.155 million has been received to 31 March 2023. The majority of this relates to transfer station fees and fitness centre income.

**Recurrent Operating Grants** total \$2.163 million to 31 March 2023, including \$0.862 million from the Victorian Local Government Grants Commission for general purpose grants and \$0.558 million for the local roads grants.

**Non-recurrent Operating Grants** total \$1.649 million to 31 March 2023, 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 2022/23 \$'000	Income 2022/23 \$'000	Unearned Income \$'000
<b>Non-Recurrent Operating Grants</b>			
Women Building Surveyors Program	-	16	46
Household Recycling Reform	-	-	98
Education and Behaviour Change Grant	-	-	25
New Arrivals Settlement Program	-	255	75
Pilot Coordination Grampians Workforce	-	108	91
Business Concierge & Hospitality Support Program	-	57	-
Aradale Solution-Economic & Social Development Strategy	-	500	-
Ararat Housing Transition	-	-	250
Digital Twin Victoria	-	30	970
Free Public WiFi Services	-	12	906
LSIF Ararat Bowls Club Lighting	-	41	-
Rural Roads Support Program	-	-	57
Supported Playgroups	60	31	17
Council Flood Support Fund	-	500	-
Unlocking Ararat North East	-	-	85
Rural Councils Transformation Project Round 2	-	41	192
Council COVID-19 Rapid Antigen Test Program	-	-	30
Other Minor Grants	30	58	-
	<b>90</b>	<b>1,649</b>	<b>2,842</b>

**Non-recurrent Capital Grants** total \$2.369 million to 31 March 2023, 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 2022/23 \$'000	Income 2022/23 \$'000	Unearned Income \$'000
<b>Non-Recurrent Capital Grants</b>			
Gordon Street Recreation Reserve Development	-	1,331	975
Delacombe Way	-	64	-
Wilson Street	-	26	-
Urban Drainage Works	-	295	-
Ararat East Development Zone Trunk Infrastructure Project	-	124	667
Transfer Station Upgrade Fund	-	132	-
COVID Safe Outdoor Activation Fund	-	108	-

Pollands Bridge	-	267	-
Power Your Future	-	22	16
Ararat Regional Playgrounds All Abilities Redevelopment	-	-	72
	-	<b>2,369</b>	<b>1,730</b>

#### Note

It is important to note the following:

1. The Grants Operating (recurrent) figure in the Original Budget was \$7.489 million and in the Current Budget is recorded as \$2.587 million, as \$4.960 million was paid to Council in 2021/22 by the Victorian Local Government Grants Commission (VLGGC) for the 2022/23 financial year. Council has still received the expected VLGGC income, to be spent in 2022/23, however it will be reported over two financial years.
2. This change in the budget, plus the note reported under expenses, create a change in the reported surplus position from a projected surplus of \$0.612 million to a deficit of \$2.020 million for 2022/23. The year to date variance is a surplus of \$4.029 million when the actual year to date surplus is compared to the year to date budget.

#### Expenses

**Employee Costs** account for approximately 41% of the total budgeted expenditure for 2022/23. For the nine months ended 31 March 2023 Council has incurred \$8.084 million in employee costs.

**Materials and Services** account for approximately 31% of the total budgeted expenditure for 2022/23. For the nine months ended 31 March 2023, Council has incurred \$9.118 million in materials and services costs. There are a number of projects, including those carried forward from 2021/22 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 \$8.421 million in the Original Budget to \$13.208 million in the Current Budget for 2022/23. This has resulted from a carry forward amount of \$4.787 million from the 2021/22 financial year surplus and unspent grant funds which will be used for additional activity in 2022/23.

#### 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 2023. Comparative figures have been provided as at 30 June 2022.

Council's current assets have decreased by \$1.170 million from \$25.514 million as at 30 June 2022 to \$24.344 million as at 31 March 2023. Cash and cash equivalents have decreased by \$3.713 million from \$21.515 million to \$17.802 million. Trade and other receivables have increased \$2.505 million from \$3.922 million as at 30 June 2022 to \$6.427 million as at 31 March 2023.

Total liabilities have decreased from \$11.995 million in 2021/22 to \$9.516 million in 2022/23, with a decrease of \$1.091 million in trade and other payables.



### 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 \$21.515 million have decreased by \$3.713 million to \$17.802 million as at 31 March 2023.

Net cash provided by operating activities was \$3.022 million and \$3.965 million was used in investing activities.

Investing activities includes payments for property, plant and equipment, and infrastructure totalling \$6.902 million. This included capital building works and capital road works.

Based on the information provided by responsible officers and managers the forecast year end result for cash and cash equivalents are in line with budget.

### 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	30/6/2022	30/9/2022	31/12/2022	31/3/2023
<p><b>Working capital</b>  <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>	225%	355%	365%	301%
<p><b>Loans and borrowings</b>  <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>	3.41%	3.27%	3.02%	2.79%
<p><b>Indebtedness</b>  <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>	3.30%	3.61%	3.44%	7.38%

Indicator	30/6/2022	30/9/2022	31/12/2022	31/3/2023
<p><b>Rates concentration</b> <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>	55.29%	90.28%	80.47%	73.32%
<p><b>Expenditure level</b> <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>	\$4,064	\$1,153	\$2,312	\$3,331
<p><b>Indicator - Revenue level</b> <i>Measure – Average rate per 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>	\$2,028	\$2,011	\$2,017	\$2,015
<p><b>Indicator – Percentage of total rates collected</b> 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 March 2023 the outstanding Rates Debtors totalled \$4.125 million compared to \$1.742 million as at 30 June 2022, an increase of \$2.383 million. In percentage terms 78.5% of the rates raised have been collected at 31 March 2023 compared to 75.7% up to 31 March 2022. Council issues approximately 7,500 rate notices. This year there are 2,843 assessments paying by instalments compared with 2,636 assessments in 2021/22. Outstanding rates are currently charged 10% interest.</p>	90.1%	13.6%	33.1%	78.5%
<p><b>Indicator – Asset Renewal &amp; Upgrade</b> <i>Measure - Asset renewal &amp; 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>	174.50%	39.98%	63.02%	79.43%

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.

### *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 2023 and the third instalment due 28 February 2023.

### *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 2023 be received*



## OUTCOME

That the Comprehensive Income Statement, Balance Sheet, Statement of Cash Flows and Financial Performance Indicators for the period ended 31 March 2023 were received

## ATTACHMENTS

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

## SECTION 4 – INTERNAL CONTROLS

### 4.1 MENTAL HEALTH ACTION PLAN

#### EXECUTIVE SUMMARY

In response to the Victorian Government's commitment to introduce regulations to address psychological health in May 2021, WorkSafe has prepared proposed regulations.

Ararat Rural City Council have since formulated a Mental Health Action Plan that meet the proposed regulations.

#### DISCUSSION

The proposed regulations will strengthen the occupational health and safety framework and will recognise that hazards that pose a risk to psychological health are no less harmful to workers' safety and wellbeing than physical hazards.

These proposed regulations will also provide clearer guidance to employers on their obligations to better protect workers from mental injury.

The changes proposed to the Occupational Health and Safety Regulations 2017 are:

- Requires employers to identify and control risks associated with psychosocial hazards
- Requires employers to review, and if necessary, revise measures implemented to control risks associated with psychosocial hazards
- Require employers to have in place a written prevention plan for certain psychosocial hazards
- Require employers to periodically report to Authority certain data on complaints of bullying, sexual harassment and aggression or violence.

Ararat Rural City Council are committed to recognising and reducing the risk of psychological hazards of the employees and have developed a Mental Health Action Plan to begin the process which will be embedded into the culture of occupational health and safety within the Council.



With using the above method, a Mental Health Action Plan has been developed and is currently at the planning stage. This plan will include consulting with the employees about what they view as the major risk factors, identify the top 5 mental health issues currently at ARCC, training in mental first aid to co-ordinators and supervisors, developing plans for each key risk and their implementation as well as an ongoing review period.

The Mental Health Action Plan will be adaptable for when the new regulations are finalised but we have identified that Psychological risks in our workforce need to start to be addressed and are being proactive in this change rather than waiting for legislation to catch up.

#### RECOMMENDATION

*That the Mental Health Action Plan report be received.*

#### OUTCOME

That the Mental Health Action Plan report was received.

#### ATTACHMENTS

The Mental Health Action Plan is provided as Attachment 4.1

## 4.2 COUNCIL POLICY REVIEW UPDATE

### EXECUTIVE SUMMARY

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

This report outlines the policies that are current and those that are out of date. There are currently 12 policies in total that are out of date and need reviewing.

### 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 and staff through Microsoft Teams, and on Council's website.

As of 31 May 2023, the following Council and Admin policies are out of date:

Policy type	Policy title	Next review date
Council	Asset Management Policy	January 2015
Council	Council Expenses and Support Policy	July 2022
Council	Garbage Charges – Commercial and Multi Tenanted properties	August 2014
Council	Planning Enforcement and Compliance Policy	April 2016
Administrative	Employee Immunisation Policy	January 2022
Administrative	Higher Duties Policy (currently being reviewed)	February 2023
Administrative	Information Technology Policy	April 2023
Administrative	Occupational Health and Safety Policy	November 2022
Administrative	Staff Grievances Policy	March 2023
Administrative	Uniform Policy - Local Laws	February 2020
Administrative	UV Exposure and Adverse Environmental Conditions Policy	November 2020
Administrative	Workplace Anti Discrimination & Harrassment Policy	February 2023

### RECOMMENDATION

*That the Council Policy Review Update be received.*

### OUTCOME

That the Council Policy Review Update was received.

## ATTACHMENTS

There are no attachments in relation to this item.

**Action:** Mr Brian Keane to circulate policy spreadsheet. The spreadsheet contains the outlined policies that the Audit & Risk committee would like to review before going to Council.

Present this list to the September 2023 Audit & Risk Committee meeting.



### 4.3 BRIDGES AND MAJOR CULVERTS- ASSET MANAGEMENT PLAN

#### EXECUTIVE SUMMARY

Council has a responsibility to manage its network of assets. Managing assets within the scope of local government requires well thought process coordinated through the delivery of council services. Council services such as Finance, Governance, Risk, IT, Depot Operations, Asset Management, Engineering, CEO's Office and Organisational Transformation all have important roles to play in the management of assets.

An asset management plan is a structured document designed to articulate the roles that various services within council play towards the overall management of council assets. It serves as a clear delineation of responsibilities and handover between different council delivery to establish an overall mature approach to asset management.

#### DISCUSSION

The intent of the attached document is to outline the approach used by Ararat Rural City Council in managing its bridge network. This plan covers the entire lifecycle of all elements of managing the bridge network including but not limited to:

- Construction and Capital Works.
- Maintenance.
- Inspection and Health Assessment.
- Asset Register and Data.
- End of life/Renewal.
- Valuation.
- Incident Management.
- Reporting.

Ararat Rural City Council will execute the management of its bridge network aligned with the approach outlined in the attached plan.

This plan is structured into components representing operational areas of the council called 'services'. The responsibilities that exist within those services combine towards a whole of organisation approach to bridge asset management.

#### RECOMMENDATION

*That the Bridges and Major Culverts – Asset Management Plan report be received.*

#### OUTCOME

**That the Bridges and Major Culverts – Asset Management Plan report was received.**

#### ATTACHMENTS

The Bridges and Major Culverts – Asset Management Plan is provided as Attachment 4.3

**Action:** Present the final version of this document to the December 2023 Audit & Risk Committee Meeting.

#### 4.4 RECOMMENDATION 6 IN THE RESULTS OF AUDIT 2021-22: LOCAL GOVERNMENT

##### EXECUTIVE SUMMARY

Recommendation 6 in the Results of Audit 2021-22: Local Government report recommended that finance teams at all councils:

- focus on strengthening their relationship with asset management and/or engineering teams to reduce the likelihood of asset recognition and valuation issues arising
- prepare and present a paper to their audit committee prior to 30 June 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 property, infrastructure, plant and equipment, engagement of an expert valuer where applicable, and key milestones
  - likely outcomes for respective reporting cycle (i.e. expected movements in fair value and resultant impact to the financial report).

##### DISCUSSION

The attachment outlines Council's accounting policy, approach to valuation for 30 June 2023 and the likely outcomes for each asset class.

It is worth noting that the 2021/2022 valuation period was a standard full revaluation for the following classes - land, buildings, roads, bridges, footpaths and drainage. As such the 2022/2023 valuation period will become an incremental valuation for these classes with method of valuation following an indexing approach on the below outlined cycle. It should be noted that Artworks will undergo a full revaluation cycle in 2022 / 2023.

During a standard full valuation, unit rates used in network asset valuations are based on figures taken from actual expenditure through renewal works on the same type of asset during the same financial year. This approach ensures accurate current unit rates specific to reconstruction of assets of the same type. An extract from the Valuation Policy shown below describes this process for pavement as an example.

##### Valuing Pavement

###### *Current Cost of Reconstruction*

Current cost of reconstruction of road pavement will be valued by taking the total area in metres of the road pavement (length x width) and are then multiplied by the current unit cost of pavement replacement per square metre. Asset attributes such as length, width, area, etc will be extracted directly from council's asset management system.

The current unit cost of pavement per square metre will be baselined by council each year. This process is undertaken by averaging the cost of pavement works across multiple capital works projects throughout the most recent financial year. The process enables the accurate estimation of real-world costs based on what the council is currently realising for pavement reconstruction per square metre on a best value proposition.

During an incremental valuation financial year (year other than when a full valuation is completed on assets that sit within a two-year cycle). Unit rates applied to the previous year's full valuation are indexed to ensure accuracy of valuation to the current economic environment.

It would be expected that under current economic conditions we will see movements in fair value of council's assets valuation that align to economy trends. This reflects validation to existing valuation approach.

##### RECOMMENDATION

*That the Recommendation 6 in the Results of Audit 2021-2022: Local Government report be received.*

## OUTCOME

That the Recommendation 6 in the Results of Audit 2021-2022: Local Government report was received.

## ATTACHMENTS

Councils Accounting Policy and Approach to Valuation is provided as Attachment 4.4.

## SECTION 5- RISK MANAGEMENT

### 5.1 REVIEW ANNUALLY THE EFFECTIVENESS OF COUNCIL'S RISK MANAGEMENT FRAMEWORK

Nil.

SECTION 6- FRAUD PREVENTION

Nil.

## SECTION 7- INTERNAL AUDIT

### 7.1 REVIEW AND APPROVE THE STRATEGIC INTERNAL AUDIT PLAN, THE ANNUAL INTERNAL AUDIT PLAN

#### BACKGROUND

AFS & Associates (AFS) are Council's Internal Auditors.

#### DISCUSSION

AFS 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 2023-2025
- Develop a draft Strategic Internal Audit Program (SIAP), including potential scopes for the suggested internal audit areas.

This plan also outlines the audit areas and scopes for the topics that will be audited in 2023.

For full details on changes to the existing 2023-2025 SIAP and annual work plans, please view Attachment 7.1.

#### RECCOMENDATION

*That the Internal Audit Program report be received.*

MOVED ROBERT TOMMASINNI  
SECONDED JESSICA ADLER

That the Internal Audit Program report was received and the Annual Internal Audit plan was adopted.

CARRIED

#### ATTACHMENTS

The Internal Audit Program report is provided as Attachment 7.1.

## 7.2 STRATEGIC INTERNAL AUDIT PROGRAM STATUS UPDATE

### BACKGROUND

AFS & Associates (AFS) are Council's Internal Auditors. This report outlines the audit program that AFS will undertake over the next three years.

### DISCUSSION

AFS & Associates have provided the current status of the Internal Audit Program.

Two audits that have just recently been marked as complete, as of April 2023:

- Governance
- Risk Management Framework

The recommendations that have been accepted by management, from the above audit will be presented at the June 2023 Audit & Risk Committee Meeting.

The next two audits to be conducted in June & August 2023 include:

- Maternal Health & Child Care
- Procurement

### RECOMMENDATION

*The Strategic Internal Audit Program Status Update report be received.*

### OUTCOME

The Strategic Internal Audit Program Status Update report was received.

### ATTACHMENTS

The Strategic Internal Audit Program Status Update report is provided as Attachment 7.2

## 7.3 MONITOR ACTION BY MANAGEMENT ON INTERNAL AUDIT FINDINGS AND RECOMMENDATIONS

### 7.3.1 INTERNAL AUDIT- AUDIT REVIEW OUTCOMES UPDATE

#### 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.

#### RECOMMENDATION

*The Audit Review Outcomes Update report be received.*

#### OUTCOME

Review of outstanding action items was deferred pending further work to update the tracking tool.

#### ATTACHMENTS

The Audit Review Outcomes Update report is included as Attachment 7.3.1.

**Action:** Brad Ead and Dr Tim Harrison to arrange a meeting to tick off complete items and discuss remaining items that may require a different approach.

**Note:** Council and the Internal Auditors (AFS) are in agreement, that due to different approaches Council are taking within the organisation, various recommendations are no longer relevant. New approaches to eliminate/address the risks will be included in the spreadsheet (for highlighted pink items), once agreed upon between Council and the Internal Auditor.



## 7.4 REVIEW REPORTS ON INTERNAL AUDIT REVIEWS, INCLUDING RECOMMENDATIONS FOR IMPROVEMENT ARISING FROM THOSE REVIEWS

### 7.4.1 INTERNAL AUDIT- RISK MANAGEMENT FRAMEWORK

#### BACKGROUND

AFS & Associates are Council's Internal Auditors and have recently conducted an audit on Ararat Rural City Councils Risk Management Framework.

#### DISCUSSION

The objective of the review was to confirm an adequate Risk Management Framework, suitable to Council's needs is in place.

The audit concluded there were 4 areas of strength. 2 areas rated as moderate risks and 3 areas rated as minor risks. The definition of a moderate risk is medium likelihood and/or consequence – requires attention over six months. The definition of a minor risk is low likelihood and/or consequence – attention within 12 months.

All recommendations suggested to management have been agreed to, and an update on the progress of these action items will be provided at the December 2023 Audit & Risk Committee meeting.

#### RECOMMENDATION

*That the Risk Management Framework report be received.*

#### OUTCOME

**That the Risk Management Framework report was received.**

#### ATTACHMENTS

The AFS & Associates Audit of Risk Management Framework report is provided as Attachment 7.4.1.

**Note:** Internal Auditors have agreed to remove Recommendation 1.1 of the Risk Management Framework report.

## 7.4.2 INTERNAL AUDIT- GOVERNANCE

### BACKGROUND

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

### DISCUSSION

The objective of the review was to ensure robust governance processes are in place, undertaken and relatively efficient and effective in mitigating governance and compliance risk.

The audit concluded there were 7 areas of strength. 3 areas rated as moderate risks, 2 areas rated as minor risks and 1 area for opportunity. The definition of a moderate risk is medium likelihood and/or consequence – requires attention over six months. The definition of a minor risk is low likelihood and/or consequence – attention within 12 months.

All recommendations suggested to management have been agreed to, and an update on the progress of these action items will be provided at the December 2023 Audit & Risk Committee meeting.

### RECOMMENDATION

*That the Governance report be received.*

### OUTCOME

**That the Governance report be received.**

### ATTACHMENTS

The AFS & Associates Audit of the Governance report is provided as Attachment 7.4.2.

### 7.4.3 INTERNAL AUDIT PLANNING DOCUMENT- PROCUREMENT

#### **BACKGROUND**

AFS & Associates are Council's Internal Auditors are currently undergoing an audit on Ararat Rural City Councils Procurement.

#### **DISCUSSION**

The objective of the review is to confirm an appropriate framework exists and is applied to ensure procurement processes comply with legislative requirements and promote obtaining best value.

The draft report of this audit is set to be circulated to ARCC for management comment in August 2023. This report shall be presented at the September 2023 Audit & Risk Committee meeting.

#### *RECOMMENDATION*

*That the Internal Audit Planning document - Procurement report be received.*

#### **OUTCOME**

**That the Internal Audit Planning document - Procurement report was received.**

#### **ATTACHMENTS**

The AFS & Associates Internal Audit Planning Document – Procurement is provided as Attachment 7.4.3.

## SECTION 8- EXTERNAL AUDIT

### 8.1 ANNUALLY REVIEW AND APPROVE THE EXTERNAL AUDIT SCOPE AND PLAN PROPOSED BY THE EXTERNAL AUDITOR

#### 8.1.1 EXTERNAL AUDIT- DRAFT INTERIM MANAGEMENT LETTER FOR THE FINANCIAL YEAR ENDING 30 JUNE 2023.

#### 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 late May within the remote working environment. An interim management letter has been received. There are ten open issues from the current period and prior period, with one issue being resolved during the period.

Audit has indicated that one of the open issues is substantially resolved and will be reviewed further during the final audit.

The draft interim management letter is subject to change, due to the IT Audit that is taking place. Issues that arise from this audit will be included in the final interim management letter.

The final interim management letter will be distributed to the Audit & Risk Committee members once received.

#### RECOMMENDATION

*That the Interim Management Letter Report for the financial year ending 30 June 2023 be received.*

#### OUTCOME

**That the Interim Management Letter Report for the financial year ending 30 June 2023 was received.**

#### ATTACHMENTS

The Draft Interim Management Letter is provided as Attachment 8.1.1.

**Action:** The final interim management letter will be distributed to the Audit & Risk committee members once the IT Audit has been complete.

SECTION 9- COMPLIANCE

Nil

## SECTION 10- GENERAL BUSINESS

### 10.1 COUNCIL POLICY REVIEW – PROCUREMENT POLICY

RESPONSIBLE OFFICER:                      CONTRACTS AND PROCUREMENT COORDINATOR  
DEPARTMENT:                                    CORPORATE SERVICES

#### EXECUTIVE SUMMARY

Council policies are updated as part of an ongoing policy and procedure review process.

The Procurement Policy has been updated as part of the review process.

The Procurement Policy was presented at the 30 May 2023 Council Meeting and was voted for unanimously.

#### DISCUSSION

The review of the Procurement Policy has been conducted to ensure that Council meets its legislative requirements and to ensure that the policy is current and meets Council's operational needs.

The main additions/changes to the policy are as follows:

<p><b><i>Under 2.17.3 Delegations Reserved for Council - updated wording</i></b></p> <p>The following procurement values must be approved by the Council:</p> <ul style="list-style-type: none"><li>• \$225,000 and above for agreements or contracts for the purchase of goods and services; or</li><li>• \$300,000 and above for entry into contract for works;</li></ul>
<p><b><i>APPENDIX 1: FINANCIAL DELEGATIONS</i></b></p> <p><i>Update of Tier 1: Chief Executive Officer</i> <i>Goods and Services - \$225,000</i> <i>Works - \$300,000</i></p>
<p><b><i>APPENDIX 2: EVALUATION PANEL</i></b></p> <p>Adjustment of procurement value - \$10,000 to \$15,000. Adjustment of procurement value – from \$10,000 - \$30,000 to \$15,000 - \$30,000</p>
<p><b><i>APPENDIX 3: PROCUREMENT METHODS</i></b></p> <p>Adjustment of price requiring one quote to \$1,000 - \$15,000. Adjustment of price requiring three quotes to \$15,000 - \$30,000 Deletion of Deputy CEO in Approval of Procurement Process prior to Execution, replaced with CEO.</p>

## KEY CONSIDERATIONS

### *Alignment to Council Plan Strategic Objectives*

The report supports the strategic objective of the Council Plan 2021-2025:

#### **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.*

### *Budget Implications*

Ensuring good financial controls around expenditure of Council funds.

### *Policy/Relevant Law*

The review of the Procurement Policy is prescribed within the Local Government Act 2020 and must be completed once in every four-year council term.

### *Sustainability Implications*

Environmental, social and economic impacts have been considered in the development of the Procurement Policy.

### *Risk Assessment*

Clarity and transparency of Council Policies and Procedures is enhanced.

### *Innovation and Continuous Improvement*

As part of Council's commitment to continuous improvement, the Procurement Policy will be reviewed as required by legislation.

### *Stakeholder Collaboration and Community Engagement*

Internal consultation has been undertaken with Councillors (Briefing 23 May 2023) and relevant staff in relation to the alterations to the Procurement Policy.

## RECOMMENDATION

*That the Procurement Policy report be received.*

## OUTCOME

That the Procurement Policy report was received, and it is noted that the Procurement Policy was tabled at the April 2023 Council Meeting.

## ATTACHMENTS

The Procurement Policy is provided as Attachment 10.1.

## 10.2 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 10 recent articles and reports, covering a range of different topics from sources such as: IBAC, Local Government Inspectorate, Maddocks and VAGO etc.

### RECOMMENDATION

*That the Industry Update report be received.*

### OUTCOME

**That the Industry Update report was received.**

### ATTACHMENTS

The Industry Update report is provided as Attachment 10.2.



## SECTION 11 – FUTURE MEETINGS

### 11.1 FUTURE MEETING DATES

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

- Tuesday 5 September 2023 1pm
- Tuesday 5 December 2023 1pm

The meeting closed at 3:10pm.

SECTION 12- NEXT MEETING/CHARTER ITEMS

June 2023		
Ref. from Charter		Ref. in Agenda
5.12	Review annually the effectiveness of Council's risk management framework	5.1
5.13	Review Council's risk appetite statement	
5.14	Review Council's risk profile and the changes occurring in the profile	
5.15	Review Council's treatment plans for significant risks	
5.16	Review the insurance program annually prior to renewal	
5.23	Quarterly report to review progress on delivery of annual internal audit plan	7.2
5.24	Quarterly review and approve proposed scopes in the annual internal audit plan	7.1
5.25	Review reports on internal audit reviews, including recommendations for improvement arising from those reviews	7.4
5.26	Meet with the leader of the internal audit function at least annually in the absence of management	Meeting with Brad (AFS) and CEO to be arranged.
5.27	Monitor action by management on internal audit findings and recommendations	7.3.1
5.28	Annually review the effectiveness of the internal audit function	7.3.1
5.33	Quarterly review to ensure that managements responses to any external audit findings are acted upon in a timely manner	7.3.1
5.34	Quarterly review Victorian Auditor General's Office (VAGO) reports to assess the impacts on Council	7.3.1

NEXT MEETING- DECEMBER 2023

<b>September 2023</b>	
Ref. from Charter	
5.1	Review significant accounting and external reporting issues
5.2	Review changes to the Local Government Performance Reporting Framework
5.3	Review the annual financial report and annual performance statement
5.4	Annual review of outcomes of the external audit with management and the auditors
5.5	Recommend the adoption of the annual financial report and annual performance statement to Council
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
5.32	Discuss with the external auditor any audit issues encountered, including any restriction on scope of work or access to information
5.33	Quarterly review to ensure that management 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
5.36	Meet with the external auditor at least annually in the absence of management
6.	Biannual report to Council