



116 Adelaide Street, Raymond Terrace NSW 2324
PO Box 42, Raymond Terrace NSW 2324

DX 21406 | ABN 16 744 377 876



Report

Date: 30 September 2014
File No: PSC2009-02637
Subject: Audit Committee 2013-2014 Annual Report

Background:

At its meeting held on 9 February 2010, Port Stephens Council resolved to establish a Section 355c Audit Committee (Committee) in accordance with Division of Local Government *best practice guidelines* 08/64. The objective of the Committee is to enhance the corporate governance of Council through the provision of independent oversight, review and advice. The Committee has no executive powers and assists Council by providing independent assurance and critical review on the organisation's governance, financial, risk control and compliance frameworks.

The Committee's Charter includes a requirement to report annually to Council on the Committee's achievements. Accordingly, the Committee is pleased to present this report on its activities for the 2013/2014 financial year.

Management by Council of governance and risk activities is a crucial requirement for business success. The Audit Committee continues to guide Council in managing risk as an integral part of management practices and as a safe guard to ensuring continuity of business.

Audit Committee structure

The Committee has four voting members. Two are independent members in accordance with the Division of Local Government's *best practice guidelines*, and two Councillors represent Council on the committee. Non-voting members include the General Manager, Group Managers and the Executive Officer. Representatives from Council's internal audit provider, Lawler Partners and external audit provider, PricewaterhouseCoopers (former) and Pitcher Partners (current) also attend meetings as required.

Audit Committee members 2013/2014 is:

Mr David Wheeler (independent Chair)
Mr Ben Niland (independent member)
Councillor Ken Jordan (September 2013 to date)
Cr Peter Kafer (September 2013 to December 2013)
Cr Chris Doohan (September 2013 to December 2013)
Councillor John Morello (December 2013 to date)

Committee meetings were held on the following dates:

- 4 November 2013
- 26 March 2014
- 15 May 2014

The budget for the Audit Committee enables a minimum of four meetings (held quarterly) per year; however, the actual number held is dependent on the committee and the extent of issues awaiting review.

Attendance at the three meetings held to 30 June 2014 is as follows

David Wheeler	1
Ben Niland	2
Councillor Doohan	1
Councillor Morello	2
Councillor Kafer	0
Councillor Jordan	3
General Manager (P Gesling)	1
Group Manager Corporate Services	3
Group Manager Facilities and Services (or representative)	3
Group Manager Development Services (or representative)	3
Executive Officer	3
Internal Auditor representative	3
External Auditor representative	1

It should be noted that representation by the external auditor is only required twice per annum, reflecting key stages of the external audit scope. For this period the external auditor only attended once due to the change of contract.

Cost of audit activities to Council

The following provides an estimate of the cost of audit related activities to Council for 2013/2014:

Internal Audit contract fees	45,000
Internal Audits conduct outside the contract	9,235
2013/2014 External Audit fee	99,000
Audit Committee attendance fees	600
Sundry expenses (meeting costs, etc)	263
TOTAL	\$141,140

Engagement with external auditors

The Audit Committee undertakes a general oversight role of the external auditor's audit scope, approach and reliance on internal audit activity. The committee also monitors management's implementation of recommendations identified within the external auditor's management letters.

The Committee also has a role in the oversight of Council's financial statements. During the year the Committee considered Council's 2012/13 financial statements and external audit focus areas.

Risk management

A key role of the committee is to review and monitor the effectiveness of the key controls in place to manage and mitigate the risks encountered by Council. These matters include operational, strategic, financial and fraud control environments, as well as ensuring adequate insurance coverage and business continuity planning.

During 2013/2014, the committee considered the high priority risks facing the organisation and monitored risk treatment plans established by management to reduce or mitigate those risk exposures.

Current high priority risks include:

Asset: Ability to adequately maintain assets, both physical and built environments
 Compliance: Records management compliance with State legislation
 Governance: Political decisions being made contrary to professional advice, policy or legislation
 Financial: Effective procurement processes and contract management
 Technology: Ability to meet business needs with appropriate technology infrastructure
 People: Health and safety systems ensuring a safe work environment
 Governance: Ability to continuously improve and innovate
 Reputation: Effective leadership management and use of social media
 Reputation: Cohesion of elected members

Legal matters

By nature of its legislative compliance role, Council has a history of various legal actions over time. Legal matters can have a significant impact on the financial and resource capacity of the organisation. Management considers the merits of all legal action and seeks to mediate and settle matters where appropriate. The committee has an oversight role on key litigation and compliance matters before the Council.

During 2013/2014 the committee considered the following significant legal matters:

- Lawrence Waterhouse Pty Ltd (in liquidation) – Council seeking to recover significant legal costs awarded by the Courts.
- Moresload, Gilson & Gilson – Land & Environment Court.
- Batten – Land & Environment Court – Appeal against orders issued by Council.
- Nichol – Appeal against refusal of development application, now final.
- Le Mottee Group – Appeal against refused development application, now final.

Internal audit

The Audit Committee at its first meeting of the year held on 4 November 2013, the Audit Committee endorsed the Internal Audit Program 2013-2015. This document represents the forward program for the Internal Auditor for the coming financial year, together with an estimated timing and risk rating of future audits across Council.

The Audit Committee has identified 6 auditable areas across Council for the period of the Internal Audit plan 2013-2014.

The table below lists internal audit reports examined by the Audit Committee at the three meetings held since 1 July 2013:

Report	Risk Rating	Area/s of Council where applicable
Business Continuity Internal Audit report	Medium	Organisation Development
<p>Key findings:</p> <p>The overall results of the audit identified that there are a number of areas for improvement for Council in managing Business Continuity. Essentially, the work completed to date on Business Continuity has assisted Council however further training, cohesion between individual plans and whole of business testing would place Council in a better position for the further.</p> <p>An overall summary of the positive aspects of Business Continuity at Council are as follows:</p> <ul style="list-style-type: none"> • The Business Continuity Plan(BCP) is based on recognised standards and frameworks; • Backup personnel are nominated for each key BCP personnel identified; • There is oversight and coordination performed of the BCP process by Organisation Development 		

<p>staff;</p> <ul style="list-style-type: none"> • Plan testing has been conducted and identified gaps have been implemented into the BCP; and • The Council has clearly defined backup procedures for IT systems. 		
Fraud Corruption & Prevention controls	Medium/Low	Financial Services
<p>Key findings:</p> <p>The overall results of the audit indicate that improvements should be made around segregation of duties and general ledger access, review of best practice procedures and payment authorisation processes, and inventory and asset management internal control environment.</p> <p>The positive aspects of the findings were that Council's fraud and corruption prevention internal control environment appears strong with a number of key documents and policies in place.</p>		
Grants Administration	Medium	Financial Services
<p>Key findings:</p> <p>The overall results of the audit were satisfactory with the audit finding that Council had improved over the past 12 months with the administration of grants. However, the audit did find that a consistent approach across Council is absent.</p>		
Section 356 Financial Assistance Grants	Medium/Low	General Manager's Office
<p>Key findings:</p> <p>The overall results of the audit identified a number of areas for improvement. The key areas were the acquittal and follow up process, management of conflict of interest, reputation management and possible efficiency gains through employment of a Grants Officer.</p>		
Privacy Management	Medium/Low	General Manager's Office
<p>Key findings:</p> <p>The overall result of the audit identified improvements in the areas of receipt of information when ratepayers are requesting information, unreasonable user access of TRIM, privacy refresher training and suitability data storage.</p> <p>The positive aspects of the audit were that there are adequate physical access restrictions to the server room and Council's Privacy Management Plan is generally compliant.</p>		
Contractor & temporary personnel	High/Medium	Organisation Development
<p>The overall result of the audit identified that Council did not have formal procedures in place surrounding temporary personnel, however a large number of internal guidelines and procedures existed. Further, it was identified that there was not one person or group responsible for the process.</p>		
Sustainability Reviews	Low	Business System Support
<p>Key findings:</p> <p>The overall results of the audit identified one area for improvement around cost savings realised through the Sustainability Reviews.</p> <p>The audit also identified positives aspects with the audit which included the Sustainability review process is considered best practice.</p>		

Action plans to address the Internal Audit findings have been established by management and are maintained by the Committee.

The 2014-15 audit schedule will involve an assessment of the extreme and high priority corporate risks and completion of the activities scheduled below.

Area of activity	Timing for completion
Assessment of extreme and high priority corporate risks	June 2015
Asbestos Management	October 2014
WHS Compliance	October 2014
Working with Children	October 2014
IT Governance Review	February 2015
Contract Management	February 2015
Vehicle & Plant Maintenance	May 2015
Insurance Claims	May 2015
Stores	July 2015
Special Events	July 2015

General activities of the Audit Committee

The following represents a summary against the Audit Committee Charter of matters discussed at the Committee meetings held during 2013/2014:

TASK	4/11/2013	26/3/2014	15/5/2014	27/6/2013
Receive presentations and reports from auditors				
Internal	✓	✓	✓	✓
External	✓			✓
Review implementation of internal and external audit recommendations	✓	✓	✓	✓
Review risk register actions and implementation	✓	✓	✓	✓
Review Fraud and corruption prevention plan	✓			
Review Risk management framework	✓	✓	✓	✓
Approve annual internal audit program	✓			
Determine Audit Committee meeting schedule	✓	✓	✓	
Review Audit Committee's performance		✓		
Review Audit Committee Charter	✓			
Review and approve the Audit Committee's annual report to Council	✓			
Review annual financial statements	✓			

Conclusion

The Committee looks forward to the opportunity to continue to provide input to Council's governance and audit processes over the coming year.

Recommendations:

- 1) Accept the Audit Committee 2013/2014 Annual Report as presented.

David Wheeler
CHAIR – AUDIT COMMITTEE

Communication method

- ✓ Post on myPort

- ✓ Post on PSC website
- Memo to section managers
- Presentation to SLT
- Snapshot article
- All staff memo from General Manager
- 2 way conversation with Councillors
- Councillors weekly PS newsletter
- ✓ Report to Council
- Media release
- Other _____