



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

DX 21406 | ABN 16 744 377 876



# Report

Date: 20 July 2012  
File No: PSC2009-02637  
Subject: Audit Committee 2011-2012 Annual Report

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## 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 2011/2012 financial year.

Management by Council of governance and risk activities is a crucial requirement for business success. The Audit Committee in its first year of operation has taken up the challenge 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 also attend meetings as required.

Audit Committee members 2011/2012 are:

Mr David Wheeler (independent Chair)  
Mr Bob Urry (independent member)  
Councillor Ken Jordan  
Councillor Peter Kafer

Substitute delegates are:

Councillor Caroline De Lyall  
Councillor Glenys Francis

Committee meetings were held on the following dates:  
The Committee has met a further four (4) times since –

- 4 August 2011
- 27 October 2011
- 23 February 2012
- 24 May 2012

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 four meetings held to 30 June 2012 is as follows

David Wheeler	1
Bob Urry	2
Councillor Kafer	1
Councillor Jordan	4
General Manager	2
Group Manager Corporate Services	4
Group Manager Commercial Services (or representative)	2
Group Manager Facilities and Services (or representative)	4
Group Manager Sustainable Planning (or representative)	4
Executive Officer (commenced 24.5.12)	1
Internal Auditor representative	4
External Auditor representative	2

It should be noted that representation by the external auditor is only required twice per annum, reflecting key stages of the external audit scope.

#### **Cost of audit activities to Council**

The following provides an estimate of the cost of audit related activities to Council for 2011/2012:

Internal Audit contract fees	\$45,490
2010/2011 External Audit fee	\$175,000
Audit Committee attendance fees	\$300
<b>TOTAL</b>	<b>\$220,790</b>

#### **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.

During 2011/2012 the identified management issues were monitored and discussed.

Actions to address outstanding matters have been established and responsibilities assigned by management. Issues before the committee include:

- Segregation of duties of identified staff processing and reviewing transactions
- Authorisation of purchases by senior staff
- Tip income reconciliation
- Master file reporting data changes
- Long outstanding bonds held for third parties

The Committee also has a role in the oversight of Council's financial statements. During the year the Committee considered Council's 2010/11 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 2011/2012, 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:

Governance:	Political decisions being made contrary to professional advice, policy or legislation
Financial:	Financial performance impacting on achievement of community strategic plan objectives
Financial:	Cash investment portfolio potential for loss of principle
People:	Health and safety systems ensuring a safe work environment
People:	Leadership impacting on efficiency and effectiveness of projects and service delivery
Environment:	Environmental and planning legislation breaches impacting on biodiversity
Environment:	Town planning controls being outdated or inadequate leading to poor urban design
Compliance:	Application of documented policies, procedures, processes and strategies impacting on achievement of community strategic plan objectives
Compliance:	Records management compliance with State legislation
Resilience:	Meeting service and project commitments in the event of a major disaster

## **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 2011/2012 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
- MM Constructions (Australia) Pty Ltd – insurance liability matter in Supreme Court
- Melaleuca Estate Pty Ltd (in liquidation) – claim against Council in the Supreme Court seeking damages over drainage
- EPA (Meadowie Quarry) – breach of environmental protection legislation
- Motto Farm Hotel – development application appeal
- Ausgrid – objection to payment of rate on Crown Land by Ausgrid
- Tunwish Pty Ltd – development application appeal
- CMA Corporation Limited – development application appeal
- Fitzgerald – alleged unfair dismissal claim

## **Internal audit**

The Audit Committee at its first meeting of the year held on 4 August 2012, the Audit Committee endorsed the Internal Audit Program 2011-2013. 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 17 auditable areas across Council for the period of the Internal Audit plan 2011-2013. Given the resources available auditable areas of highest risk have been prioritised.

The table below lists internal audit reports examined by the Audit Committee at the four meetings held since 1 July 2011:

Report	Risk Rating	Area/s of Council where applicable
Waste Management	High/Moderate	Community & Recreation Services
<p>Key findings:</p> <p>The overall results of the audit indicate that existing controls in relation to cash handling procedures and visitors to the site need to be improved, in particular the movements of visitors whilst onsite.</p>		
Purchasing and procurement	High/Moderate	Financial Services
<p>Key findings:</p> <p>The overall results of the audit indicate that improvements should be made to the use of the Authority system for procurement of goods and services, and that limits be set within Authority for placing orders.</p>		
Project management		Civil Assets
<p>Key findings:</p> <p>The response from the Audit is as follows:</p> <p>Given the current phase of the "rollout" of the project management process for Council, no areas for improvement could be identified to date. The key to any project management process is the consistent application of the policies and procedures across Council for all tasks which meet the definition of a project. This aspect of the project management process will be assessed as part of our detailed internal audit procedures, to be completed during the 2012 financial year.</p>		
Financial Sustainability & Planning	Low	Financial Services
<p>Key findings:</p> <p>The overall results of the audit indicate that the risk was assessed as low. The improvements identified were to update the finance manual and advise staff, review the role of the Financial Services area in the budget process and the audit trial off draft budget movements be maintained.</p>		
Development applications	Extreme - Low	Development Assessment & Compliance
<p>Key findings:</p> <p>The overall result of the audit showed that the majority of areas for improvement being of a low or moderate risk rating. However, one extreme risk area was identified during our audit. This matter relates to the manual nature of application assessments and retention of manual records for each development application. This area has been identified by Management and various models for improvement are being considered. Although DA records are processed by the Development Assessment and Environmental Health Section at Council, it was agreed at a recent meeting that Information Management (IM) is the process owner for capturing DA records online. To this end, work has recently commenced on mapping the DA process to understand the 'as is' process as opposed to the desired future state of 'to be'.</p>		
Investments	Moderate	Financial Services
<p>Key findings:</p> <p>The overall results of the audit indicated a number of positive aspects;</p> <ul style="list-style-type: none"> <li>• The Council has a comprehensive Cash Investments Policy in place which meets key legislative requirements;</li> <li>• Multiple term and rate quotes are considered for all investments;</li> <li>• Maturity and cash flow requirements are considered when investment decision are made;</li> <li>• A signed and authorised 'Authority to Invest' form is required for all investments; and</li> <li>• Adequate segregation of duties is maintained through the separation of the investment decision and the payment of funds.</li> </ul> <p>An overall summary of the key areas for improvement are as follows:</p>		

<ul style="list-style-type: none"> <li>deficiencies in the procedures surrounding the appointment and use of advisors;</li> <li>deficiencies in the retention of documentation surrounding both interest/return rate quotes obtained and evidence of the final decision with authorisation;</li> <li>deficiencies in the review processes surrounding investment reconciliations and Authority transaction entry;</li> <li>deficiencies in the implementation and design of the adopted investment policy;</li> <li>non-compliance with the legislative reporting requirements for investments; and</li> <li>inappropriate and inadequate delegations of authority and a lack of review of these delegations.</li> </ul>		
Government Information (Public Access) Act	Low	General Manager's Officer
<p>Key findings:</p> <p>The overall results of the audit indicate that the risk was assessed as low. The audit identified that general Council complied with the legislation with the expectation of the area of proactive release and maintenance of the contracts register.</p>		
Purchasing and Procurement	High	Financial Services
<p>Key findings:</p> <p>The overall results of the audit indicates improvements are required to better manage purchasing and procurement through the Authority system by establishing delegations, establish variance audit of orders vs invoices, improve creditor masterfile maintenance and improvement order management by managers.</p>		

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

The following table details the area of activity scheduled for internal audit during 2012/2013:

Area of activity	Timing for completion
Capital projects/works management	Rolled out from 2011-12
Section 94 contributions	Rolled out from 2011-12
Succession planning	Rolled out from 2011-12
Asset maintenance	Rolled out from 2011-12
Fraud & Corruption Prevention Controls	May 2012
Councillors Expense	October 2012
Administration and Reporting for Grants	October 2012
Contractors and Temporary Personnel	February 2013
Exercising Delegations	February 2013
Sundry revenue & cash handling procedures	February 2013
Payroll and Leave Management	May 2013
Property Management	May 2013

## 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 2011/2012:

TASK	4/8/2011	27/10/2011	23/2/2012	24/5/2012
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 2011/2012 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 \_\_\_\_\_