



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

DX 21406 | ABN 16 744 377 876



# Report

Date: 8 August 2013  
File No: PSC2009-02637  
Subject: Audit Committee 2012-2013 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 2012/2013 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 also attend meetings as required.

Audit Committee members 2012/2013 are:

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

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

- 26 July 2012
- 25 October 2012
- 28 February 2013
- 27 June 2013

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 2013 is as follows

David Wheeler	4
Bob Urry	3
Councillor Kafer	0
Councillor Jordan	4
General Manager	4
Group Manager Corporate Services	4
Group Manager Facilities and Services (or representative)	4
Group Manager Development Services (or representative)	4
Executive Officer	4
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 2012/2013:

Internal Audit contract fees	45,000
Internal Audits conduct outside the contract	16,065
2010/2011 External Audit fee	77,000
Audit Committee attendance fees	600
Sundry expenses (advertising (EOI), etc)	2,475
<b>TOTAL</b>	<b>\$141,140</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.

The Committee also has a role in the oversight of Council's financial statements. During the year the Committee considered Council's 2011/12 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 2012/2013, 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
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 inappropriate use of social media
Reputation:	Lack of 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 2012/2013 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, now final
- Towers – compulsory acquisition matter
- McEwan and Webb – Appeal in the Land & Environment Court, now final
- Watson Group – Prosecution for unlawful disposal of waste, now final
- Armstrong – Prosecution for dog attack, now final
- ATB Morton – Appeal against deemed refusal of development application, now final
- Nichol – Appeal against refusal of development application, matter continuing
- Gilson – Appeal against Prevention Notice, now final
- Le Mottee Group – Appeal against refused building certificate application, now final
- Le Mottee Group – Appeal against refused development application, matter continuing

### Internal audit

The Audit Committee at its first meeting of the year held on 26 July 2012, the Audit Committee endorsed the Internal Audit Program 2012-2013. 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 10 auditable areas across Council for the period of the Internal Audit plan 2012-2013. 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 2012:

Report	Risk Rating	Area/s of Council where applicable
Succession Planning	Extreme/Medium	Organisation Development
Key findings: The overall results of the audit identified that there are a number of areas for improvement for Council in managing succession planning. Based upon the five broad steps of succession planning, the Council is only completing the first two steps in detail. Some aspects of the remaining three steps are completed within Council, however the management and review of this is limited, largely informal and does not form part of any structured process.  An overall summary of the positive aspects of succession planning at Council are as follows:		

<ul style="list-style-type: none"> <li>• Structured process for assessing and planning for workforce requirements for Council moving forward;</li> <li>• Annual performance management system across Council, through the Work and Development Plan;</li> <li>• Identification of critical employees and position across Council; and</li> <li>• Detailed employee surveying, including employee engagement.</li> </ul>		
Project Management	High/Medium	Facilities & Services
<p>Key findings:</p> <p>The overall results of the audit indicate that improvements should be made around the general understanding and training of project management, in particular sign off at each stage, policy and procedure enhancement and document control.</p> <p>The positive aspects of the findings were that consideration is given to key areas such as risk, restrictions and communication.</p>		
Section 94	Extreme/Medium	Community Planning & Environmental Services
<p>Key findings:</p> <p>The overall results of the audit identified that there are a number of areas for improvement in future managing Section 94 contributions, in particular allocation of repealed funds, policy and procedures and regular training.</p> <p>It was noted that from a positive aspect Council had formed a Section 94 Analysis Team, flowcharted processes and acknowledgement of the importance of a structured process.</p>		
Asset Maintenance	Extreme/Medium	Civil Assets
<p>Key findings:</p> <p>The overall results of the audit identified a number of areas for improvement. The key areas were informal processes for review and quality assurance of maintenance, the need for improved asset register and better utilisation of AUSSPEC/NAMS/IIMM plans.</p>		
Capital Projects/Works Management	High/Medium	Civil Assets
<p>Key findings:</p> <p>The overall result of the audit identified improvements in the areas of a formal capital works framework and process improvement, improved project plans and real time financial reporting.</p>		
Financial Modelling		Financial Services
<p>The Financial Modelling audit was conducted in addition to the endorsed Audit Program. The report was provided as part of the future financial position modelling for Council.</p> <p>This information will be used for future budget planning purposes and business activities.</p>		
Payroll & Leave Management	Medium/Low	Financial Services
<p>Key findings:</p> <p>The overall results of the audit identified improvement in the key areas of succession planning for staff, reduction of staff resources for data entry and the improved managed of timesheets/flexisheets.</p> <p>The audit also identified positives aspects with the audit. Those being the high level of knowledge of payroll staff and the management of the whole process by payroll staff.</p>		
Property Management	Medium/Low	Property Services

<p>Key findings:</p> <p>The overall results of the audit identified improvement in policy development for bond requirements and document management.</p>		
Exercising Delegations	High/Low	General Manager's Office
<p>Key findings:</p> <p>The overall results of the audit identified improvement in annual reviews, improved understanding of the review process is required, currency of legislation and improved definition surrounding monetary values.</p> <p>The audit also identified positives aspects with the audit. Those being key personnel were aware of their delegations and the process in exercising delegations, management of the instruments is appropriate for the operations and an overall conservative approach is taken by staff when exercising delegations.</p>		
Sundry revenue & cash handling	Low	Financial Services
<p>Key findings:</p> <p>The overall results of the audit identified improvement are required in cash float management, receipting, management of EFTPOS facilities and random till counts.</p> <p>The audit also identified positives aspects with the audit. Those being minimal cash handling by staff, positive attitude by staff and appropriate reconciliation procedures.</p>		

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

The 2013-14 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
Business Continuity	Rolled over from 2012-13
Contractor and Temporary Personnel	Rolled over from 2012-13
Administration and Reporting for Grants	Rolled over from 2012-13
Fraud & Corruption Prevention Controls	Rolled over from 2012-13
Assessment of extreme and high priority corporate risks	June 2014

## 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 2012/2013:

TASK	26/7/2012	25/10/2012	28/2/2013	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 Note: To be completed in 2013-14				
Review Risk management framework	✓	✓	✓	✓
Approve annual internal audit program	✓			
Determine Audit Committee meeting schedule	✓			
Review Audit Committee's performance Note: To be completed in 2013-14				
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 2012/2013 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 \_\_\_\_\_