

FOREWORD

This annual report provides commentary on the operations and activities of the Audit Committee (Committee) for the 2018-2019 financial year.

The Port Stephens Council (PSC) local government area covers 860 sq km with 220 sq km (23%) National Park, State Forest and Nature Reserves. It has a resident population of 71,118 and is estimated to rise to 80K by 2031.

PSC has 500.16 (EFT) staff and an operational budget of \$122M plus a capital works program of \$25.45M.

At its meeting held on 9 February 2010, Port Stephens Council (PSC) resolved to establish a Section 355c Audit Committee in accordance with the Office of Local Government's Best Practice Guidelines 08/64.

The charter objective of the Committee is to enhance the corporate governance of PSC through the provision of independent oversight, review and advice. The Committee assists Council by providing independent assurance and assistance on the organisation's governance, risk, control and compliance frameworks.

AUDIT COMMITTEE STRUCTURE AND MEETING ATTENDANCE

The Committee has 5 voting members. Three are independent members in accordance with the Office of Local Government's Best Practice Guidelines, and 2 Councillors represent Council on the committee with an additional Councillor appointed as an alternate delegate.

Non-voting members include the General Manager, group managers, the Financial Services Section Manager the Governance Section Manager and Risk Management Coordinator. Representatives from Council's internal audit provider PKF and external audit provider Pitcher Partners also attend meetings as required. The Audit Office's Financial Audit Director attends meetings as appropriate.

A quorum was available for each of the 4 meetings held during the 2018-2019 period. The meetings were held on 19 July 2018, 25 October 2018, 21 February 2019 and 23 May 2019.

A list of Audit Committee members and non-voting members for 2018-2019 is detailed below noting the number of meetings attended by each member.

| Voting Members | Number of meetings attended |
|---|------------------------------------|
| Mr Ben Niland (independent Chair). | 3 |
| Mr Frank Cordingley (independent member). | 3 |
| Mr Shaun Mahony (independent member). | 3 |
| Councillor Chris Doohan. | 2 |
| Councillor Glen Dunkley. | 3 |
| Councillor Ken Jordan (alternate delegate). | 0 |

| Non-voting Members | Number of meetings attended |
|--|-----------------------------|
| General Manager (or representative). | 4 |
| Corporate Services Group Manager (or representative). | 4 |
| Development Services Group Manager (or representative). | 4 |
| Facilities & Services Group Manager (or representative). | 4 |
| Financial Services Section Manager. | 4 |
| Governance Section Manager. | 4 |
| Internal Auditor representative. | 2 |
| External Auditor representative. | 3 |
| Financial Audit Director (Audit Office). | 1 |

COMMITTEE'S PERFORMANCE REVIEW

The Committee continues to perform well overall against the core responsibilities contained in its charter. The Council is benefiting from a stable, skilled and experienced membership that is suitably qualified and works in a collegiate fashion.

Annual survey results are reported separately to the Committee. Completed by 11 respondents results of the 2018-2019 annual review showed that participants either agreed or strongly agreed that the Committee performed well against its core responsibilities.

SUMMARY OF RECOMMENDATIONS

The Audit Office raised 3 recommendations in its external audit management letter for 2017 – all were assessed as a moderate risk, with 2 of the 3 actions completed during the 2018-2019 period.

| COMPLETED Actions | |
|--|---|
| Issue | Recommendation |
| Review of general journals. | Council put in place a process to ensure all journals are reviewed by an appropriate independent staff member prior to processing. |
| Fair value assessments of infrastructure, property, plant and equipment (IPP&E). | Council put in place an annual formal assessment process to determine whether the fair value of IPP&E has changed significantly from the prior year. Where fair value has increased/decreased materially full revaluations should be performed. |

The action that remains outstanding is detailed below with a date for completion noted as 31 December 2019.

| ONGOING Action | |
|--|---|
| Issue | Recommendation |
| Civica-Audit logs of privileged access are not reviewed. | <p>For those Council staff assigned with 'super user'/administrator IT access privileges we recommend Council consider the following controls:</p> <ul style="list-style-type: none"> Civica Authority privileged access audit logs are reviewed regularly by a suitably independent and qualified individual, with appropriate action taken when required. Standing Civica privileged access is removed and only granted on a temporary basis when required. |

There were 19 internal audit recommendations provided to the Committee as part of 6 internal audit reviews undertaken during this reporting period. Only 1 action was recorded as having a high risk and related to the Workers Health Initiative – Employee Contract renewal. This matter is currently being investigated and due for completion by 31 December 2019.

The following internal audit reviews were completed during the period, with no serious internal control weaknesses reported.

| Audit Review | Risk Rating |
|--|-------------|
| Disposal of Assets. | M |
| Workers Health Initiative. | M |
| Mayor/Councillors reimbursements. | L |
| National Heavy Vehicle Accreditation Scheme. | L |
| On-line requisition system. | M |
| Development and Assessment. | L |

An additional review of the RMS Drives system was completed with compliance noted in all aspects.

OPINION: RISK/CONTROL FRAMEWORK

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 2018-2019 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.

The current high priority risks include:

- Decision making – Decision making impacts by Council/JRPP.
- Competencies and skills – Project management across the organisation.
- Natural disaster – Natural disaster recovery (eg fire and flood).
- Regulatory change – State/Federal decisions/changes impacting on Council's ability to deliver services.

SUMMARY OF WORK – HIGHLIGHTS

RISK MANAGEMENT

- Received and reviewed quarterly risk management reports focusing on the high priority risks facing the organisation and monitored risk treatment plans established by management to reduce or mitigate those risk exposures.

CONTROL FRAMEWORK

- Considered audit arrangements for 2018-2019.
- Noted Audit Office, Fraud Control Systems.
- Received and reviewed relevant policy, directives and procedures as required.



EXTERNAL ACCOUNTABILITY

- Completed a review of the financial statements prior to submission to the Office of Local Government.

COMPLIANCE

- Considered corporate credit card report and compliance.
- Noted the analysis of total supplier payments for 2018-2019.
- Noted results of an EFT and employee bank account review.

INTERNAL AUDIT

- Reviewed and endorsed the internal audit plan.
- Reviewed internal audit actions and implementation.
- Noted results of 6 completed internal audit reviews. No serious internal control weaknesses were reported.
- An additional review of the RMS Drives system was completed with compliance noted in all aspects.

EXTERNAL AUDIT

- Received and noted the Annual Engagement Plan.
- Reviewed the management letter and ensured corrective action was established in a suitable action plan.

LEGAL MATTERS

- As at 30 June 2019: 4 legal matters remained before the Courts; 6 matters remained with NCAT and 14 court elected infringement notices are set to be heard before the Local Court.

COST OF AUDIT ACTIVITIES

- The total cost to Council for audit activities for the period is \$134,442 compared to \$138,800 for the previous 2017-2018 period.

BEN NILAND – CHAIR

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DATE