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Report

Date: 10 November 2011
File No: PSC2009-02637
Subject: Audit Committee 2010-2011 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 met for the first time in July 2010 and held its inaugural meeting on 10 November 2010.

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 2010/2011 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 and Group Managers. Representatives from Council's internal audit provider, Lawler Partners and external audit provider, PricewaterhouseCoopers also attend meetings as required.

Audit Committee members 2010/2011 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:

- 11 November 2010
- 24 February 2011
- 26 May 2011

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 2011 is as follows

David Wheeler	3
Bob Urry	0
Councillor Kafer	1
Councillor Jordan	1
General Manager	3
Group Manager Corporate Services	3
Group Manager Commercial Services (or representative)	3
Group Manager Facilities and Services (or representative)	3
Group Manager Sustainable Planning (or representative)	3
Internal Auditor representative	3
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 2010/2011:

Internal Audit contract fees	\$45,490
2009/2010 External Audit fee	\$78,518
Additional external audit related services	\$12,500
Grant audits	7,000
Audit Committee attendance fees	\$2,550
TOTAL	\$146,058

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 2010/2011 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
- Master file reporting data changes
- Long outstanding bonds held for third parties
- Monthly account reconciliations
- Authorisation of purchases by senior staff
- Tip income reconciliation
- Reliance on automated accounting software for financial statement preparation

The Committee also has a role in the oversight of Council's financial statements. During the year the Committee considered Council's 2009/2010 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 2010/2011, 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
- Technology: Disaster recovery capacity for ICT
- 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 2010/2011 the committee considered the following significant legal matters:

- Melaleuca Estate Pty Ltd (in liquidation) – claim against Council in the Supreme Court seeking damages over drainage
- 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
- EPA (Medowie Quarry) – breach of environmental protection legislation
- Motto Farm Hotel – development application appeal
- Hooper – development application appeal

Internal audit

At its first meeting on 11 November 2010, the Audit Committee endorsed the Internal Audit Program 2010-2013. 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 2010-2013. 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 three meetings held since November 2010:

Report	Risk Rating	Area/s of Council where applicable
End of financial year process	Moderate	Financial Services
<p>Key findings:</p> <p>The overall results were satisfactory. Areas identified for improvement related to administrative aspects of the general ledger reconciliation and documentation.</p>		
IT governance and disaster recovery	High	Information Management
<p>Key findings:</p> <p>The overall results of the audit indicate that existing control procedures are inadequate for the level of risk presented. Allocation of internal resources to complete critical remediation works is not able to be achieved while maintaining current levels of service (including system and network maintenance and help desk services).</p> <p>Aspects requiring remediation include: overall ICT security and governance, with various external consultants being able to access security levels; ICT backup procedures; defining service standards, role and responsibilities for the ICT environment.</p>		
Complaints management	Moderate/Low	Governance/Communications & Customer Relations
<p>Key findings:</p> <p>The overall audit result was satisfactory, with most controls in place for processing and responding to complaints operating effectively.</p> <p>However, some control weaknesses were identified in relation to the complaint handling process including the timeliness of a complaint lifecycle, mechanisms in place to identify trends and underlying causes, and the absence of a consistent complaints management system across the organisation.</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 2011/2012:

Area of activity	Risk rating	Timing for completion
Waste management	Critical	August 2011
Purchasing & procurement – initial review	Moderate/High	August 2011
Project management – initial review	Critical	August 2011
Financial sustainability and planning	Critical	October 2011
Asset maintenance	Critical	February 2012
Purchasing and procurement	Major	February 2012
Capital projects/works management	Major	February 2012
Section 94 contributions	Critical	May 2012
Succession planning	Critical	May 2012
Investments	Critical	May 2012
Government Information (public access) Act (NSW) 2009 operational review	Major	May 2012
Project management	Critical	July 2012
Developer applications	Major	February 2012

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 2010/2011:

TASK	11/11/2010	24/02/2011	26/05/2011
Receive presentations and reports from internal and external auditors	✓	✓	✓
Review implementation of internal and external audit recommendations	✓	✓	✓
Review risk register actions and implementation	✓	✓	✓
Review Fraud and corruption prevention plan		✓	
Review Risk management framework	To be considered (February 2012)		
Approve annual internal audit program	✓		
Determine Audit Committee meeting schedule	✓		
Review Audit Committee's performance	To be considered at meeting August 2011		
Review Audit Committee Charter	To be considered at meeting August 2011		
Review and approve the Audit Committee's annual report to Council	To be considered at meeting October 2011		
Review annual financial statements	To be considered at meeting October 2011		

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 2010/2011 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 _____