

Date: 30 November 2015  
File No: PSC2015-01492  
Subject: Audit Committee 2014-2015 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 2014-2015 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 with an additional Councillor appointed as a sub delegate. Non-voting members include the General Manager, Group Managers, Financial Services Section Manager and the Governance Manager. Representatives from Council's internal audit provider, PKF Lawler and external audit provider, Pitcher Partners also attend meetings as required.

Audit Committee members 2014-2015 are:

Mr David Wheeler (independent Chair)  
Mr Ben Niland (independent member)  
Councillor Ken Jordan  
Councillor John Morello  
Councillor Chris Doohan (sub delegate)

Committee meetings were held on the following dates:

- 24 July 2014
- 23 October 2014
- 26 February 2015
- 28 May 2015

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 (4) meetings held to 30 June 2015 is as follows:

|   |   |
|---|---|
| David Wheeler   | 2 |
| Ben Niland  | 3 |
| Councillor Jordan   | 3 |
| Councillor Morello  | 2 |
| Councillor Doohan (sub delegate)                          | 1 |
| General Manager   | 4 |
| Group Manager Corporate Services (or representative)      | 4 |
| Group Manager Facilities and Services (or representative) | 4 |
| Group Manager Development Services (or representative)    | 4 |
| Financial Services Section Manager                        | 4 |
| Governance Manager  | 3 |
| 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 2014-2015:

|                                      |                  |
|--------------------------------------|------------------|
| Internal Audit contract fees         | \$43,121         |
| 2014-2015 External Audit fee         | \$65,000         |
| Audit Committee attendance fees      | \$982            |
| Sundry expenses (meeting costs, etc) | 0                |
| <b>TOTAL</b>                         | <b>\$109,103</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 2014-2015 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 2014-2015, 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  
Financial: Effective project management  
People: Health and safety systems ensuring a safe work environment  
Reputation: Effective leadership management and use of social media

## **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 2014-2015 the committee considered the following 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 – Council seeking Court declarations as to whether the original development consent granted was valid or had lapsed.
- Batten – Land & Environment Court – Appeal against orders issued by Council.
- Telstra – Land & Environment Court – Appeal against refusal to grant development consent issued by Council.
- Shoal Bay Developments & Snoogal – Land & Environment Court – Appeal against refusal to grant consent to section 96 modification issued by Council.
- Denshire – Appeal against order served by Council in relation to development without consent.
- South Tomaree Community Action Group v Landcom and JRPP – Appeal against decision of JRPP to grant consent to Fishermans Bay subdivision.
- R v Kawarren Homes Pty Ltd – Court elected Penalty Infringement Notices, Development not in accord with consent and Pollute Waters.

## **Internal audit**

The Audit Committee has identified 11 auditable areas across Council for the period of the Internal Audit plan 2014-2015.

The table below lists internal audit reports examined by the Audit Committee at the four meetings held since 1 July 2014:

| Report   | Risk Rating                | Area/s of Council where applicable  |
|--|----------------------------|---|
| Building Security  | High/medium/low            | Property Services/Public Domain & Services/Community Services                       |
| <p>The audit identified that there are a number of areas for improvement for Council in the management of building security. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• CCTV equipment for the administration building is inadequate;</li> <li>• Key registers are not consistently used;</li> <li>• Multiple staff use the same code for the security systems;</li> <li>• Lock-up procedures are not documented and in use for all locations; and</li> <li>• There is insufficient control over boom gate codes at Holiday Parks.</li> </ul> |                            |   |
| Section 355 Committees   | High/medium/low/efficiency | Financial Services/Community Services   |
| <p>The audit identified that there are a number of areas for improvement for Council in the management of Committees. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• Appropriate levels of insurance coverage for patrons, contractors, and volunteers;</li> <li>• Declarations of conflicts of interest; and</li> <li>• Documentation of key governance and safety requirements including meeting minutes, WHS training and code of conduct statements.</li> </ul>   |                            |   |
| Asbestos Management  | Medium/low                 | Organisation Development/Strategy & Environment/Development Assessment & Compliance |
| <p>The audit identified that there are a number of areas for improvement for Council in asbestos management processes. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• Additional training may be required in asbestos awareness and asbestos handling for Council staff;</li> <li>• Asbestos warning information is not currently distributed with Section 149 planning certificates; and</li> <li>• The Council is unclear as to its financial responsibilities in relation to the NSW Government Asbestos Blueprint.</li> </ul>                 |                            |   |
| WHS Compliance   | Low                        | Organisation Development/Section Managers   |
| <p>The audit identified that there are a number of areas for improvement for Council in WHS Management processes. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• Completion of employee inductions within three months of commencement; and</li> <li>• Ensuring all employees onsite sign as having attended and understood the Daily Toolbox Meeting.</li> </ul>   |                            |   |
| Working with Children  | Medium/low                 | Organisation Development/Community Services   |

| Report  | Risk Rating   | Area/s of Council where applicable |
|---|---------------|------------------------------------|
| <p>The audit identified that there are a number of areas for improvement for Council in the management of Working with Children. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• There is no record of a check for the Council's Senior Community Development and Engagement Officer;</li> <li>• The Council's Child Protection Policy is outdated and requires updating to comply with current Council practices and legislative requirements;</li> <li>• The maintenance of information on family day care providers requires improvement; and</li> <li>• The Council needs to ensure that all staff requiring checks in the future have been adequately identified, and that checks are recorded appropriately.</li> </ul>   |               |                                    |
| Contract Management   | Medium/low    | Financial Services                 |
| <p>The audit identified a number of areas for improvement for the Council in the management of contracts. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• Ensuring that all relevant policy and procedure documentation is in place and up to date;</li> <li>• Ensuring that certificates of currency of insurance are stored consistently and centrally, and expiry dates are monitored;</li> <li>• Completing review procedures for all significant contracts;</li> <li>• Performing appraisals prior to rollover of existing contracts and recognising where re-tendering may be more beneficial;</li> <li>• Monitoring spend with suppliers to identify when contracts may be required; and</li> <li>• Ensuring that details per the contract register are consistent with the details of the actual contract.</li> </ul> |               |                                    |
| Vehicle and Plant Maintenance   | Medium/low    | Public Domain & Services           |
| <p>The audit identified a number of areas for improvement for the Council in the management of vehicle and plant maintenance. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• Ensuring that all required maintenance has been scheduled and is carried out in a timely manner;</li> <li>• Consulting maintenance records when preparing the replacement schedule to ensure useful lives of assets remain accurate;</li> <li>• Ensuring that all information required to be completed on work order is present and that work orders and other documentation are appropriately signed; and</li> <li>• Formalising the policies and procedures regarding the maintenance of plant and vehicle assets.</li> </ul>   |               |                                    |
| Long Term Financial Plan  |               | Financial Services                 |
| <ul style="list-style-type: none"> <li>• The Long Term Financial Plan was audited as part of the Fit for the Future assessment.</li> </ul>  |               |                                    |
| Insurance Claims  | High/moderate | Organisation Development           |

| Report   | Risk Rating | Area/s of Council where applicable        |
|--|-------------|---|
| <p>The audit identified three areas for improvement for the Council in the management of insurance claims. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• Completion of investigation reports on a timely basis and in accordance with Council policy;</li> <li>• Consideration of improvements to the IT environment, including system capability in relation to database capacity and integration; and</li> <li>• Maintenance and review of user access levels to the systems involved in the insurance claims IT environment.</li> </ul>   |             |   |
| Stores   | Medium      | Public Domain & Services                  |
| <p>The audit identified four areas for improvement for the Council in the management of its stores. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• Development of over-arching stores-specific policy;</li> <li>• Consideration of definitions and responsibilities as they relate to stocktaking, and slow moving stock;</li> <li>• Consideration of review processes, and segregation in place with regards to delegation levels in the purchasing process; and</li> <li>• Consideration of system limitations in the reconciliation of fuel stock.</li> </ul>  |             |   |
| Special Events   | Medium/low  | Community Services/Strategy & Environment |
| <p>The audit identified five areas for improvement for the Council in the management of special events. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> <li>• Council may consider developing a definition of a gala day as referred to in the Sporting Facility User Agreement and User Fees and Charges;</li> <li>• Council may consider producing a Special Events Toolkit, targeting volunteer organisations to assist with the completion and compilation of applications;</li> <li>• Consideration of mandating site visits for medium and high impact events;</li> <li>• As it relates to facility use, Council may consider enhancing internal communication within Council, as it relates to facility use, through development of a checklist; and</li> <li>• Council may consider requiring EventPro to be used as the primary booking tool of facilities by authorised Council officers.</li> </ul> |             |   |

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

The 2015-2016 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 |
|---|-----------------------|
| IT Governance review (including security)               | October 2015          |
| Development application compliance                      | February 2016         |
| Complaints Handling                                     | February 2016         |
| Code of Conduct   | February 2016         |
| Customer request management                             | February 2016         |
| Private swimming pool compliance                        | May 2016              |
| Business Continuity                                     | May 2016              |
| Records and data management                             | May 2016              |
| Environmental management                                | July 2016             |
| Section 94  | July 2016             |
| Flexi-time  | July 2016             |
| Purchasing and procurement (including accounts payable) | July 2016             |

### 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 2014-2015:

| TASK   | 24/07/2014 | 23/10/2014 | 26/02/2015 | 28/05/2015 |
|--|------------|------------|------------|------------|
| 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                                 |            | √          |            |            |

| TASK  | 24/07/2014 | 23/10/2014 | 26/02/2015 | 28/05/2015 |
|---|------------|------------|------------|------------|
| 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 2014-2015 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
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