

Date: 14 October 2016
File No: PSC2015-01492
Subject: Audit Committee 2015-2016 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 2015-2016 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 2015-2016 are:

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

At the Ordinary Council meeting held 8 March 2016 (Min No. 055), Council resolved to extend the term of the independent Audit Committee members to 31 December 2016 given the pending merger proposal with either Newcastle City Council or Dungog Shire Council.

Committee meetings were held on the following dates:

- 22 October 2015
- 18 February 2016
- 26 May 2016

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 (3) meetings held to 30 June 2016 is as follows:

David Wheeler	1
Ben Niland	3
Councillor Jordan	3
Councillor Doohan	2
Councillor Morello (sub delegate)	1
General Manager	3
Group Manager Corporate Services (or representative)	3
Group Manager Facilities and Services (or representative)	3
Group Manager Development Services (or representative)	2
Financial Services Section Manager	3
Governance Manager	3
Internal Auditor representative	3
External Auditor representative	0

It should be noted that representation by the external auditor is only required at key stages of the external audit scope. The external auditors were unable to attend during the period 2015-2016 with the 2014-2015 Annual Financial Statements presented to the Audit Committee by Finance Manager, Tim Hazell.

Cost of audit activities to Council

The following provides an estimate of the cost of audit related activities to Council for 2015-2016:

Internal Audit contract fees	\$27,506
2015-2016 External Audit fee	\$58,900
Audit Committee attendance fees	\$800
Sundry expenses (meeting costs, etc)	\$288
TOTAL	\$87,494

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 2015-2016, 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:

Business activities:	Ineffective project management.
Climate change:	Sea level rise and extreme weather events.
Environmental and public health:	Failure to implement the asbestos management plan.
Environmental and public health:	Inability to protect and maintain the natural and built environment, including the bio diversity, liveability and natural systems within the LGA.
Environmental and public health:	Ground water may become contaminated by pollution at RAAF Base.
Financial:	Response and recovery stages of a natural disaster may not be fully funded by state/federal government.
Financial:	Inappropriate procurement and contract management processes.
Information technology:	Inadequate data management.
Property and Infrastructure:	Failure to adequately maintain assets.
Reputation:	Inappropriate or unauthorised use of on-line media by staff or external parties.
Reputation:	Failure to maintain CCTV systems in public places.
WHS:	Inconsistent application of safety leadership across Council.

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 2015-2016 the committee considered the following legal matters:

- Lawrence Waterhouse Pty Ltd (in liquidation) – Council seeking to recover significant legal costs awarded by the Courts.
- Shoal Bay Developments & Snoogal – Land & Environment Court – Appeal against refusal to grant consent to section 96 modification issued by Council.
- 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.
- Bowtell v PSC ("Gardenland") – Land & Environment Court Appeal – EPA refused to provide General Terms of Approval (GTAs) for this development application and Council required to refuse to grant consent.
- Clippers Anchorage v PSC – (Soldiers Point Marina) – Land & Environment Court Appeal – Council refused to grant consent to development application for expansion of the marina.

Internal audit

The Audit Committee identified 11 auditable areas across Council for the period of the Internal Audit plan 2015-2016.

The table below lists internal audit reports examined by the Audit Committee at the three meetings held since 1 July 2015:

Report	Risk Rating	Area/s of Council where applicable
Development application compliance	High/Low	Governance/Development Assessment and Compliance
<p>The Development Application compliance audit identified a number of areas for improvement for Council. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> • Review the Working Together Policy to assess the appropriateness of the scope and timing of information currently communicated to Councillors. • Implement an annual Councillor sign off of their understanding of the Working Together Policy. • Continue to increase community awareness relating to the reduction in 'red tape' and shorter processing times through the e-Planning project. • Establish a compliance precedents database that allows Council staff to search for prior compliance matters. • Review all policies identified as due for review. 		
Code of Conduct	Low	Governance

Report	Risk Rating	Area/s of Council where applicable
<p>The Code of Conduct audit identified that Council is currently employing best practice procedures and did not identify any potential areas for improvement.</p>		
Complaints Handling	Medium/Low	Governance
<p>The Complaints Handling audit identified a number of areas for improvement for Council. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> • Investigate and implement the findings of the integration investigation to improve the reporting and monitoring of complaints. • Develop a standard complaint template to be available at the front counter for groups identified in the audit report. • Develop a complaint handling fact sheet. • Continue to investigate the electronic lodgement of complaints via Council's website. • Identify staff to attend complaints handling training. • Nominate staff to attend in-house training facilitated by the NSW Ombudsman. 		
Flexitime	Medium/Low	Human Resources/Business Systems Support/ Finance
<p>The Flexitime audit identified a number of areas for improvement for Council. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> • Develop a report for regular distribution to group and section managers. • Undertake a review of information contained within the employee Masterfile to ensure it is reflective of current employment contracts. • Undertake a review of employees currently receiving flexitime arrangements to ensure this is in accordance with policy, the Enterprise Agreement and employment contracts. • Conduct a review and implement a consistent approval process. • Investigate the possibility of using online leave process to manage requests. • Investigate the feasibility of additional staff to be responsible for cross-checking the data entry input into Access. • Continue to transition all employees onto online timesheets that are integrated with the payroll system. • Review current procedures in place regarding timesheet approval. • Implement a policy whereby payroll cannot be processed without all timesheets signed as approved. • Continue phased transition to the automated Authority system. 		
IT Governance Review	High/Medium	Business Systems Support
<p>The IT Governance review audit identified a number of areas for improvement for Council. A summary of the key areas for improvement are outlined below:</p> <ul style="list-style-type: none"> • Perform regular reviews of electronic key access logs. • Implement a formal 'change management' process. • Review ICT Asset Management Directive. • ICT Asset Management roll out into Council's existing asset management framework. • Implement a log aggregation and monitoring system. 		

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

The 2016-2017 audit schedule will involve an assessment of the high priority corporate risks and completion of the activities scheduled below.

Area of activity	Timing for completion
Private swimming pool compliance	October 2016
Environmental management	October 2016
Section 94	October 2016
Data management framework	February 2017
National heavy vehicle accreditation scheme	February 2017
RMS Drives	February 2017
Business Continuity	May 2017
Records and data management	May 2017
Purchasing and procurement (including accounts payable)	May 2017
CCTV management	Date yet to be confirmed
Risk management – fit for purpose	Date yet to be confirmed
Records and data management	Date yet to be confirmed
Asset management	Date yet to be confirmed
Business continuity	Date yet to be confirmed
Project management	Date yet to be confirmed

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 2015-2016:

TASK	22/10/2015	18/02/2016	26/05/2016
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	√		√

TASK	22/10/2015	18/02/2016	26/05/2016
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) Endorse the Audit Committee 2015-2016 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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