

Date: 5 September 2018  
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Subject: Audit Committee 2017-2018 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 the Office of Local Government's 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 2017-2018 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 five voting members. Three are independent members in accordance with the Office 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 Manager and the Governance Manager. 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.

Audit Committee members 2017-2018 are:

Mr Ben Niland (independent Chair)  
Mr Frank Cordingley (independent member)  
Mr Shaun Mahony (independent member)  
Councillor Chris Doohan  
Councillor Glen Dunkley  
Councillor Ken Jordan (sub delegate)

Committee meetings were held on the following dates:

- 27 July 2017;
- 25 October 2017;
- 22 February 2018;
- 31 May 2018.

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 2018 is as follows:

Ben Niland	3
Frank Cordingley	4
Shaun Mahony	4
Councillor Dunkley	3
Councillor Doohan	1
Councillor Jordan (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 Manager	4
Governance Manager	2
Internal Auditor representative	3
External Auditor representative	2
Financial Audit Director	1

It should be noted that representation by the external auditor is only required at key stages of the external audit scope.

### **Cost of audit activities to Council**

The following provides details on the cost of audit related activities to Council for 2017-2018:

Internal Audit contract fees	\$56,987.44
External Audit fee	\$75,713.00
Audit Committee attendance fees	\$5,500.00
Sundry expenses (meeting costs, etc)	\$600.00
<b>TOTAL</b>	<b>\$138,800.44</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 2016-2017 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 2017-2018, 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:

Risk Category	Overarching Risk Statement
Regulatory change.	State/Federal decisions/changes impacting on Council's ability to deliver services.
Natural disaster.	There is a risk of a natural disaster (eg fire and flood) affecting the local government area.
Competencies and skills.	Project management competencies across all units.
Decision making.	Decision making by Council/JRPP affecting local government operations.

## 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 2017-2018 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 & Or v PSC – Lagoons Estate, Nelson Bay – Supreme Court – seeking damages for Council's purported failure to prevent stormwater from flowing onto the Estate.

- Bowtell v PSC ("Gardenland") – Land & Environment Court Appeal – Proposed Gardenland composting development for which consent was granted by the Land and Environment Court in March 2017.
- Clippers Anchorage v PSC – (Soldiers Point Marina) – Land & Environment Court Appeal – Council refused to grant consent to development application for expansion of the marina.
- Morrissey v PSC – 111 South Street, Medowie – Land & Environment Court Appeal – Council refusal to grant consent for a Torrens Title subdivision.
- Telina Webb v PSC – NCAT File Nos: 1610211, 1610235, 1610236 and 1610401.
- Paul McEwan v PSC – NCAT File No. 1610429.
- Telina Webb v PSC – NCAT File Nos: 00089292, 00089311, 00089313.
- Telina Webb v PSC – NCAT File Nos: 00146393, 00146396, 00146399.
- PSC v Telina Webb – S110 GIPA application to Restrain File No: 00153702.
- Telina Webb v PSC – NCAT Internal Appeal No: 42900.
- Paul McEwan v PSC – NCAT Internal Appeal No: 42809.
- Telina Webb v PSC – NCAT Internal Appeal No.02138.
- Telina Webb v PSC – Administrative Review Application NCAT File No: 00343768.
- Telina Webb v PSC – Administrative Review Application NCAT File Nos: 16219 and 16195.
- PSC ats Solo Waste – Commercial Arbitration – dispute in relation to recyclables removal contract.

### Internal audit

The Audit Committee identified nine auditable areas across Council for the period of the Internal Audit plan 2017-2018.

The table below lists internal audit reports examined by the Audit Committee at the four meetings held since 1 July 2017 and the overall audit findings:

Report	Risk Rating	Area/s of Council where applicable
CCTV Management.	Low.	Strategy and Environment
<p>An internal audit on CCTV management was finalised in July 2017.</p> <p>The CCTV systems in Raymond Terrace and Nelson Bay were inherited from the respective chambers of commerce. Council was not expecting to be involved in the management of the CCTV systems and therefore did not have the appropriate policies and standard operating procedures in place.</p> <p>A memorandum of understanding is to be negotiated with NSW Police which will allow NSW Police to utilise the CCTV system to assist in crime prevention. It is understood that the objective of the system is crime prevention deterrent and that the system will not be continuously monitored.</p> <p>A formal cost assessment associated with the ongoing capital and maintenance costs of the CCTV system is to be undertaken.</p> <p>There were three areas of improvement identified including a review of proposed internal policies and procedures prior to implementation; investigate options and ability to resource the finalisation of these policies and procedures; and investigate the reviewing of capital and maintenance costs associated with the development and operation of CCTV management systems.</p> <p>At the time of writing this report agreed actions are due for completion by November 2018.</p>		

Report	Risk Rating	Area/s of Council where applicable
Project Management.	Medium.	Facilities & Services Group Manager and section managers.
<p>An internal audit on Project Management was finalised in July 2017.</p> <p>A project management framework has been implemented that appears to achieve the objectives set out in Council's project management policies and procedures.</p> <p>CAMMS has been incorporated as the primary software tool for project documentation and Council's policies provide clear and meaningful guidance to staff in order to apply these principles within projects.</p> <p>It is noted that detailed environmental assessments are performed in accordance with Council's policies on Environmental Management Systems.</p> <p>There were four areas for improvement identified that include the roll out of training in CAMMS Project; additional functionality within CAMMS Project that prevents progression to subsequent phases without the appropriate sign off; establishment of an Initiation Officer role; and integration of CAMMS Project with Authority.</p> <p>Agreed actions are due for completion by December 2018. Incorporating risk assessments as part of the initiation stages of CAMMS project will be completed by June 2019.</p>		

Report	Risk Rating	Area/s of Council where applicable
Asset Management.	Low.	Asset and Finance sections.
<p>An internal audit on Asset Management was finalised in July 2017.</p> <p>Overall results concluded that Council has been successful in utilising and incorporating ISO 55001:2014 requirements within the SAMP.</p> <p>While adherence was evidenced between the SAMP and ISO 55001:2014 the maturity assessment identified seven key areas for improvement that Council may consider such as the annual budget; governance and management; levels of service; data, systems, skills and processes and evaluation.</p> <p>At the time of writing this report agreed actions are due for completion by June 2019.</p>		

Report	Risk Rating	Area/s of Council where applicable
Injury Minimisation	Low	Organisation Development
<p>An internal audit of Injury Minimisation Management was finalised in February 2018.</p> <p>Overall results concluded that Council has been successful in ensuring there are preventative measures in place to improve injury minimisation management.</p> <p>While adherence was evidenced various types of preventative measures were identified for improvement with regard to documentation, tracking and training.</p> <p>The three key areas for improvement include the implementation of enhancements to the risk management system; a review of all training records to be undertaken to determine which staff require ongoing refresher training; and better integration of the information systems around risk and specifically work, health and safety.</p> <p>At the time of writing this report agreed actions are due for completion by December 2018, with the implementation of CAMMS Risk to be finalised by June 2019.</p>		

Report	Risk Rating	Area/s of Council where applicable
Tendering	Low/Medium	Financial Services
<p>An internal audit of Tendering was finalised in January 2018.</p> <p>Overall results concluded that Council is adhering to the internal policies and procedures in relation to tendering.</p> <p>It was noted during audit testing that current tendering procedures were outdated and largely manual processes, however the implementation of a new Contract Management module was expected to improve the recording and reporting around tendering.</p> <p>Four areas for improvement including: strategic contracts register; conflict of interest declarations; contract variations; and purchase splitting were identified during the course of the audit and have now been completed.</p>		

Report	Risk Rating	Area/s of Council where applicable
National Heavy Vehicle Accreditation Scheme	Medium	Public Domain & Services
<p>An internal audit of the National Heavy Vehicle Accreditation Scheme was completed in February 2018.</p> <p>As part of the National Heavy Vehicle Accreditation Scheme, Council is required to implement and use their own management systems to demonstrate the required vehicle and operator compliance within certain parts of the law.</p> <p>During the course of the audit four key areas of improvement were identified relating to pre-start checks; fault reporting; maintenance reporting and chain of responsibility.</p> <p>At the time of writing this report audit actions around process development and retraining and Council's approach to chain of responsibility were completed.</p>		

Report	Risk Rating	Area/s of Council where applicable
Fraud and Corruption Control	Medium	Governance and Communications sections.
<p>An internal audit of Fraud and Corruption Control was completed in May 2018.</p> <p>The overall findings concluded that Council has well established policy and procedures for fraud prevention; provides training by way of induction to all new employees and is committed to developing a culture that is proactive in identifying and responding to fraud and corruption risks.</p> <p>There were eight key areas noted for improvement including: improvements to the Fraud Control framework; fraud insurance; fraud awareness and training; ABA (Australian Bankers Association file format) files; cash on hand; user access to the system; employee and supplier masterfile and supplier bank destinations.</p> <p>At the time of writing this report agreed actions are due for completion by December 2018.</p>		

Report	Risk Rating	Area/s of Council where applicable
Complaints Handling	Low	Governance and Communications sections.
<p>An internal audit of Council's Complaints Handling process was completed in May 2018. The overall findings concluded that the policy framework, the Customer Request Management (CRM) system and staff training were all positive aspects of the current process. There were four key areas noted for improvement including: a review of the current complaints management practice within the holiday parks; integration of the EDRMS (electronic document and records management system) and the CRM (customer request management) systems; review of the customer service framework; and identification of staff who require training (initial) and to see that refresher training is included in the IWDP (individual work and development plan) process.</p> <p>At the time of writing this report agreed actions are due for completion by December 2018.</p>		

Report	Risk Rating	Area/s of Council where applicable
Development Contributions	Low	Strategy and Environment section.
<p>An internal audit of Development Contributions was completed in May 2018. The audit found that Council has undertaken significant governance and process development measures in recent years in response to previous internal audit findings. Development of documented procedures, progress of the Development Contributions Plan and the continuation of monthly meetings were all positive findings of this review. There were four key areas for improvement including the development of a training program, the development of management directives to address development, referral, review and approval of plans; a policy for repealed funds and quarterly reporting to Councillors.</p> <p>At the time of writing this report agreed actions are due for completion by December 2018.</p>		

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

The 2018-2019 audit schedule will involve an assessment of the high priority corporate risks and completion of the activities scheduled below.

Area of activity
Development Application assessment.
Disposal of Assets.
Worker's Health Initiative.
Mayor/Councillors Reimbursements.
On-line Requisition system (including goods received).
National Heavy Vehicle Accreditation Scheme (yearly audit).
Payroll.
RMS (Roads and Maritime Services) Drives.



## 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 2017-2018:

TASK	27/07/2017	25/10/2017	22/02/2018	31/05/2018
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				
Review Audit Committee Charter				
Review and approve the Audit Committee's annual report to Council		The 2016-2017 Audit Committee Annual Report was reported to Council on 12 December 2017.		
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 2017-2018 Annual Report as presented.

### **Ben Niland** **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 \_\_\_\_\_