

Date: 10 October 2017
File No: PSC2015-01492
Subject: Audit Committee 2016-2017 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 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 2016-2017 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 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 Section Manager and the Governance Manager. Representatives from Council's internal audit provider PKF and external audit provider Pitcher Partners also attend meetings as required.

Audit Committee members 2016-2017 are:

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

Committee meetings were held on the following dates:

- 20 October 2016
- 27 February 2017
- 1 June 2017

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 2017 is as follows:

David Wheeler	1
Ben Niland	3
Councillor Jordan	3
Councillor Doohan	3
Councillor Morello (sub delegate)	0
General Manager	3
Group Manager Corporate Services (or representative)	3
Group Manager Facilities and Services (or representative)	2
Group Manager Development Services (or representative)	2
Financial Services Section Manager	3
Governance Manager	2
Internal Auditor representative	3
External Auditor representative	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 an estimate of the cost of audit related activities to Council for 2016-2017:

Internal Audit contract fees	\$39,083
2016-2017 External Audit fee	\$49,390
Audit Committee attendance fees	\$800
Sundry expenses (meeting costs, etc)	\$324
TOTAL	\$89,597

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 2015-2016 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 2016-2017, 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 2016-2017 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.
- 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.
- PSC v Wijewickrama – Land & Environment Court (LEC) Court Appeal – Class 1 – order to demolish unauthorised retaining wall.

Internal audit

The Audit Committee identified nine auditable areas across Council for the period of the Internal Audit plan 2016-2017.

The table below lists internal audit reports examined by the Audit Committee at the three meetings held since 1 July 2016:

Report	Risk Rating	Area/s of Council where applicable
Private Swimming Pool and Compliance	Low	Development Assessment and Compliance
The Private Swimming Pool and Compliance audit identified a number of areas for improvement for Council. A summary of the key areas for improvement are outlined below:		
<ul style="list-style-type: none">• It was identified that there is no formal risk matrix to assist Council in their assessment of private swimming pools when performing inspections. Further, when risks are identified, there is no formal process for assessing these risks, or prioritise resources to address the non-compliant pools.• Testing identified that Council staff are not consistently following processes for compliance with the pool inspection program, with respect to inspections, record management and registrations.• Policies and processes have not been updated in accordance with the prescribed review dates and are not reflective of current procedures.		

Report	Risk Rating	Area/s of Council where applicable
S94 Contributions	Low	Strategy and Environment
<p>The S94 Contributions audit identified a number of improvement areas for Council. A summary of the key areas for improvement are outlined below.</p> <ul style="list-style-type: none"> • There is no clear strategic alignment between the S94 Plan and works program. • Lack of documented policies and management directives. • There is no backup role for the Development Contributions Officer. • There is currently no S94 module available within the Civica Authority software. 		
Environmental Management	Low	Strategy and Environment
<p>The Environmental Management 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"> • Inconsistent approach across different Council departments as to how to address and complete environmental assessments. • A high number of REFs are completed by external consultants engaged on behalf of Council. • There is no guidance on ensuring that only appropriately qualified staff are preparing and signing off on REFs. • It was noted that Council departments all use different document management processes for the maintenance of REFs. 		
Data Management Framework	Medium	Business Systems Support
<p>The Data Management Framework 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"> • Internal procedures in relation to assigning, reviewing and amending user access restrictions within Council's systems. • Best practice procedures to be considered within the final data management framework. 		
National Heavy Vehicle Accreditation Scheme	Medium	Public Domain and Services
<p>The National Heavy Vehicle Accreditation Scheme 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"> • A specific process map is required to be implemented to guide and show required document processes and required checks. • Performing a review process regularly to ensure checks and compliance are carried out. • Implement regular training to reinforce the importance of the process. 		

Report	Risk Rating	Area/s of Council where applicable
Purchase and Procurement	Medium	Financial Services
<p>The Purchase and Procurement 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"> • Manual process limitations hindering Council from achieving full efficiency and effectiveness in the purchasing and procurement process. • Improvements to the supplier Masterfile maintenance to ensure that information is up to date and accurate. • Consideration of data analytics findings against management's expectations. • Consideration of automation within the purchasing and procurement process. 		
Business Continuity	Medium	Organisation Development
<p>The Business Continuity 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"> • It was noted that there is a lack of formalised plan for business continuity backup documentation. • It was identified that there appears to be varying levels of staff awareness of ICT and business continuity procedures. 		
Records Management	Medium	Business Systems Support
<p>The Records Management 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"> • It was noted that Council does not have documented processes outlining the expectations and requirements for recording email correspondence. • It was noted that Council does not have documented processes governing outgoing correspondence. 		
Risk Management	Medium	Organisation Development
<p>The Risk Management 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"> • Concerns raised around whether it is necessary to extend the contract, or create a permanent position for an environmental risk officer and what section it is best suited to sit. • There are no formal procedures or directives on how to conduct risk assessments for projects carried out by Facilities & Services 		

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

The 2017-2018 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
Tendering	October 2017
Injury management minimisation	November 2017
Fraud and corruption control	December 2017
National vehicle accreditation scheme	January 2018

Area of activity	Timing for completion
Complaints handling	March 2018
RMS	May 2018
Levying Section 94 payments and invoicing	May 2018

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 2016-2017:

TASK	20/10/2016	27/02/2017	01/06/2017
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	√		
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 2016-2017 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
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