

SUBJECT: CCL 24/11/15 - AUDIT COMMITTEE AND INTERNAL AUDIT ANNUAL REPORT

REPORT BY: COUNCIL & LEGAL SERVICES

CONTACT: GENERAL MANAGER / MANAGER COUNCIL & LEGAL SERVICES

PURPOSE

To provide an annual report to Council on the Audit Committee's oversight of the internal audit function, the management of risk and effectiveness of internal controls.

The report is being submitted in accordance with the Audit Committee Charter and Office of Local Government Internal Audit Guidelines. It is for information purposes only.

RECOMMENDATION

- 1 Council receives the Audit Committee and internal audit annual report for the 2014/2015 financial year.
- 2 Council note the Audit Committee's comments about the positive results and success in delivering the strategy to return Newcastle City Council to financial sustainability. The Audit Committee commended the work of management and the elected Council over the past three years to achieve this goal. The Audit Committee acknowledged that this has required a sustained effort and that discipline has been maintained around some challenging areas.
- 3 Council revert to the organisational structure adopted at the Ordinary Council meeting on 24 September 2013, as it ensures good governance and best practice by having the Internal Audit function reporting more directly to the CEO.

KEY ISSUES

- 4 The Audit Committee "plays a pivotal role in the governance framework to provide Council with independent oversight and monitoring of Council's audit processes, including Council's internal control activities. This oversight includes internal and external reporting, risk management activities, internal and external audit and compliance." (The Division of Local Government, Internal Audit Guidelines, September 2010).
- 5 Reporting to Council is required by the Audit Committee Charter.
- 6 The Audit Committee Charter has been reviewed according to the approved schedule. No Audit Committee Charter amendments are currently proposed.

FINANCIAL IMPACT

- 7 The payment of external Audit Committee members has a moderate financial impact on Council. The total annual payment to Audit Committee external members was \$18,590 for the 2014/2015 financial year. This was \$6,613 less than the \$25,203 provided in the operational budget. This reduction is the result of Audit Committee meetings running more efficiently and being shorter in duration.
- 8 The amount of \$25,203 was approved in the 2015/2016 budget for the Audit Committee. Councillor members of the Audit Committee are not paid.

COMMUNITY STRATEGIC PLAN ALIGNMENT

- 9 Maintaining an Audit Committee supports the strategic direction of Open and Collaborative Leadership.

IMPLEMENTATION PLAN/IMPLICATIONS

- 10 Internal Audit and the Audit Committee support the General Manager to oversee Council's risk management and controls. Both functions are referenced in Council's enterprise risk management framework.

RISK ASSESSMENT AND MITIGATION

- 11 Maintaining an Audit Committee and internal audit function reduces risks to Council. When internal audit functions are maintained, instances of fraud, corruption, misappropriation, reputational and financial damage are more likely to be identified. Internal audit also identifies opportunities to improve the efficiency and effectiveness of Council operations.
- 12 The implementation of audit actions must be balanced against the urgency of other projects and available resources. Risk levels are considered in determining audit priorities and how audit recommendations are addressed.

RELATED PREVIOUS DECISIONS

- 13 On 19 May 2009, Council established the Audit Committee.
- 14 On 15 November 2011, Council received the first annual Audit Committee report.
- 15 On 9 October 2012, Council adopted the Audit Committee Charter to replace the previous Audit Committee Constitution. Cr Dunn and Tierney were appointed as Councillor Members to the Audit Committee.
- 16 On 12 February 2013, Council received the second annual Audit Committee report.
- 17 On 23 September 2014, Council approved the appointment of Cr Waterhouse to replace Cr Tierney as the second Councillor member of Council's Audit Committee, such appointment to be effective immediately.

18 On 25 November 2014, Council received the third annual Audit Committee report and adopted the current Audit Committee Charter.

CONSULTATION

19 This report was approved by the Audit Committee on 5 November 2015.

OPTIONS

Option 1

20 The recommendation as at paragraphs 1, 2 and 3. This is the recommended option.

Option 2

21 Council resolves not to adopt the recommendation at paragraphs 1 and 2. This is not the recommended option.

BACKGROUND

22 The Audit Committee is made up of three external, independent members and two Councillor Members. This membership is in accordance with the Office of Local Government Internal Audit Guidelines, (September 2010) and the Audit Committee Charter.

23 The Audit Committee Charter contains Audit Committee responsibilities. Broadly, these include oversight of Council's risk management, control framework, legislative compliance and internal audit. The Audit Committee also reviews the external audit opinion and recommendations and other aspects of financial governance and reporting.

24 The Committee has no power of direction over the external audit or the manner in which the external audit is planned or undertaken.

25 The Committee has no executive powers. It cannot make decisions on behalf of Council or direct Council officers in the performance of their duties.

REFERENCES

Nil

ATTACHMENTS

ATTACHMENT A Additional information

ATTACHMENT A

ADDITIONAL INFORMATION

The Audit Committee

1 The current status of external members is:

- Dr Col Gellatly (Chair), was appointed on 3 September 2013 for an initial 12 month term and his contract extended until 3 September 2017
- Micah Jenkins, was initially appointed until 30 June 2015 and had his contract extended for a period of 12 months to 30 June 2016
- Martin Matthews, was initially appointed until 30 June 2015 and had his contract extended for a period of 24 months to 30 June 2017

2 Contract extensions were decided by the Audit Committee Selection Panel in May 2015, after an expression of interest process. Existing members were considered to be a better fit with the existing Audit Committee in terms of skill set and experience.

3 Audit Committee activity since November 2014 has included:

- Conducting five ordinary meetings
- Approval of the 2015-2018 three-year Forward Internal Audit Plan
- Endorsement of completed internal audits and implementation actions
- Receipt of briefings from PricewaterhouseCoopers on Council's annual external financial audit plan and draft audit report
- Receipt of reporting on the investigation and court proceedings relating to a fraud matter
- Receipt at each meeting of the most recent Monthly Financial Performance Report
- Receipt of progress reporting at each meeting on the implementation of Enterprise Resource Planning (OneCouncil)
- Reviewing Internal Audit performance results against adopted indicators
- Participating in a performance self-assessment

4 A number of standing items are included in the Audit Committee business cycle. These are:

- Annual insurance report
- Bi-annual review of Work Health & Safety statistics
- Risk management report at each meeting
- Annual report on large write-offs

- Review of the annual external audit plan and briefing on the draft external audit report
- Bi-annual report on the performance and financial statements for Business Improvement Associations

5 Statistics are provided to the Audit Committee which report:

- the total number of audit actions
- the number of overdue audit actions from management
- the number of audit actions not completed by management within approved timeframes
- the number of audit actions which are dependent on the implementation of functions to be delivered by the OneCouncil suite of core programs

Risk Management

6 Risk management key activities are reported at each meeting of the Audit Committee. The Committee maintains interest in the implementation status of Council's enterprise risk management framework and clarification of risk data to inform business planning and decision-making, including the internal audit plan.

Satisfaction Survey Results

7 Internal Audit surveys stakeholder satisfaction after each audit has been completed. On a scale of 1-5, with 1 indicating Strong disagreement and 5 indicating Strong agreement, average results for overall satisfaction with audit scored 3.9.

8 The statements, 'The audit report was balanced and constructive', and 'I was given the opportunity to provide input on the findings and conclusions, and on the recommendations made to address them' both scored highly.

9 Lower average scores were achieved against statements related to audit timing and the statement 'The auditors demonstrated a good knowledge of the subject matter' scored an average of 3.5 for performance.

10 Internal Audit will continue to implement initiatives to improve audit performance and the satisfaction of stakeholders.

Performance Self-assessment

11 The Audit Committee performance self-assessment was conducted during July 2015. A questionnaire was used, with the objectives to:

- a) determine the extent to which the Audit Committee is achieving its overall objective to provide independent assurance and assistance to Council on risk management, control, governance, and legal and regulatory obligations; and
- b) assess the performance of Council's internal audit.

- 12 Four out of five members responded to the questionnaire. This represents an 80% response rate.
- 13 Members were asked to provide a rating in response to a total of 37 statements. 25 of the statements related to the function of the Audit Committee and 12 related to the function of Internal Audit.
- 14 Performance rating options were either 'strongly disagree', 'disagree', 'agree' or 'strongly agree'.
- 15 According to survey results, the areas reviewed by the Audit Committee which continue to require improvement are Council's risk management framework and the timeliness of implementing agreed audit actions. Survey comments reiterated these responses.
- 16 All responses strongly agreed that, overall, internal audit has made a valuable contribution to the achievement of Council's objectives.
- 17 To address the Audit Committee responses regarding risk, Council will continue to focus on implementing the risk management framework, collating risk data and prioritising risk strategies to support the achievement of Council business objectives.

Internal Audit

- 18 Council outsources most of the internal audit function. Outsourcing ensures a high level of independence and autonomy from Council's management and that specialised knowledge and skills can be procured to conduct audits of those high risk areas which could impact the achievement of Council's objectives.
- 19 Reliance on internal resources is increasing. Internal resources are allocated to complete four audit engagements in the 2015/16 internal audit program. During 2014/15, Internal Audit resources either conducted, or supported the conduct of four extra reviews, additional to the approved forward internal audit plan.
- 20 On 16 June 2015, Council accepted the schedule of hourly rates tender of O'Connor Marsden & Associates Pty Limited to perform internal audit services from July 2015 for a period of three years with an option for Council to extend the period of the agreement for one year by written agreement.
- 21 This is a non-exclusive agreement that allows Council to appoint other, specialist audit providers as necessary.
- 22 One other specialist service provider was engaged during 2014/15. This was to conduct a specialist IT security review.
- 23 The Audit Committee and internal audit provider are supported by an Internal Audit Coordinator.

24 A total of 10 internal audits were approved for the 2014/15 period. The seven internal audits completed by 30 June 2015 were:

- RMS DRIVES audit
- Business continuity planning
- Business improvement associations (BIAs)
- Volunteer management
- National Heavy Vehicle Accreditation Scheme
- IT access and security
- Management of community halls

25 The two remaining internal audits from the 2014/15 approved program are nearing completion; contract variations and fraud and corruption management.

26 An audit of Council's management of utility costs was deferred for two years, due to the implementation of a new, web-based resource and utility tracking program.

Forward Internal Audit Plan

27 Management takes a risk-based approach to formulate a three year, rolling forward internal audit plan. The 2015-2018 forward internal audit plan was approved by the Audit Committee on 4 June 2015.

28 The audit planning process requires management to periodically consider risk levels, strategic objectives, audit history and other factors to determine audit priorities. These criteria are weighted to provide a scoring method so audit priorities can be ranked.

29 On the basis of these rankings, the Audit Committee has approved eleven internal audits to be completed during 2015/2016. These are:

- RMS DRIVES (mandatory annual requirement)
- Sponsorship management
- Plant hire and allocation
- Grant management and administration process
- Summerhill Waste Management Centre compliance with regulatory requirements
- Application of fees and charges
- Fire safety compliance management
- National Heavy Vehicle Accreditation Scheme (mandatory annual requirement)
- Payroll processing
- Data integrity
- Risk management

30 Completion of this audit program will be subject to the management of audit costs within the budget allocated for internal audit services. The allocated operational budget for internal audit for 2015/16 is \$125,829, being the same amount as allocated for 2014/15.

- 31 Management and the Audit Committee will review the forward internal audit plan periodically, to ensure that it continues to align with Council's risk priorities.

External Audit

- 32 The Audit Committee have continued to be proactive in reviewing Council's financial position and commitment towards achieving financial sustainability.
- 33 At a meeting on 20 August 2015, the Audit Committee was provided with a briefing on the External Auditor's plan for the annual external audit, along with comments on interim findings.
- 34 The Audit Committee met on 15 October 2015 to receive briefings on the draft audit opinion and Council's financial statements in respect of the year ended 30 June 2015. A management report of significant financial matters for year ended 30 June 2015 was reviewed. The report provided summary comparative information on key financial indicators and provided an update on Council's implementation of the Audit Committee recommendations made in March 2013.
- 35 The Audit Committee noted the positive results and success in delivering the strategy to return Newcastle City Council to financial sustainability and commended the work of management and Councillors to improve the Council's financial position over the past three years. The Audit Committee acknowledged that this has required a sustained effort and that discipline has been maintained around some challenging areas.