

SUBJECT: CCL 25/11/2014 - AUDIT COMMITTEE AND INTERNAL AUDIT ANNUAL REPORT

REPORT BY: EXECUTIVE MANAGEMENT
CONTACT: GENERAL MANAGER

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 Division of Local Government Internal Audit Guidelines. It is for information purposes only and does not require a decision of Council.

RECOMMENDATION

- 1 Council receives the Audit Committee and internal audit annual report for the 2013/2014 financial year.
- 2 Council adopts the revised Audit Committee Charter.

KEY ISSUES

- 3 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).
- 4 Reporting to Council is required by the Audit Committee Charter.
- 5 The Audit Committee Charter has been reviewed according to the approved schedule.

FINANCIAL IMPACT

- 6 The payment of external Audit Committee members has a moderate financial impact on Council. The total annual payment to Audit Committee external members was \$24,862 for the 2013/2014 financial year. This is \$1,638 less than the \$26,500 provided in the operational budget.
- 7 \$25,203 was approved in the 2014/2015 budget for the Audit Committee. Councillor members of the Audit Committee are not paid.

COMMUNITY STRATEGIC PLAN ALIGNMENT

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

IMPLEMENTATION PLAN/IMPLICATIONS

- 9 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

- 10 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.
- 11 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

- 12 On 19 May 2009, Council established the Audit Committee.
- 13 On 15 November 2011, Council received the first annual Audit Committee report.
- 14 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.
- 15 On 12 February 2013, Council received the second annual Audit Committee report.
- 16 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.

CONSULTATION

- 17 The report was approved by the Audit Committee on 30 October 2014.

OPTIONS

- 18 There are no options proposed.

BACKGROUND

- 19 The Audit Committee is made up of three external, independent members and two Councillor Members. This membership is in accordance with the Division of Local Government, *Internal Audit Guidelines*, (September 2010) and the Audit Committee Charter.
- 20 The Audit Committee Charter contains the 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.
- 21 The Committee has no power of direction over the external audit or the manner in which the external audit is planned or undertaken.
- 22 The Committee has no executive powers. It cannot make decisions on behalf of Council or direct Council officers in the performance of their duties.

ADDITIONAL INFORMATION

The Audit Committee

23 The current status of external members is:

- Dr Col Gellatly (Chair), appointed 3 September 2013 for an initial 12 month term and contract extended for a further 12 months until 3 September 2015
- Micah Jenkins, appointed until 30 June 2015
- Martin Matthews, appointed until 30 June 2015

24 Audit Committee activity since November 2013 includes:

- Conducting four ordinary meetings
- Approval of the 2014-2017 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 financial statements
- Receipt at each meeting of the most recent Monthly Financial Performance Report
- Receipt of reporting at each meeting on the implementation of Enterprise Resource Planning (OneCouncil)
- Receipt of a briefing at each meeting on the implementation of the organisational structure adopted by Council on 24 September 2013
- Adoption of internal audit performance indicators
- Participating in a performance self-assessment

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

- Annual insurance report
- Bi-annual review of Work Health and Safety statistics
- Risk management report at each meeting
- Annual report on large write-offs
- Annual report on the performance and financial statements for Business Improvement Associations

26 Statistics are provided to the Audit Committee which report:

- the total number of audit actions
- the number of overdue audit actions
- the number of audit actions not completed 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

27 The timely completion of audit actions continues to require Audit Committee monitoring and guidance. On 30 October 2014, it was reported to the Audit Committee that 51% (155) audit actions were not completed within the approved timeframes.

28 Management has implemented the following strategies to improve audit action completion timeframes:

- Limiting the number of audit actions from each audit
- Applying a completion timeframe guide when audit actions are drafted
- Limiting the number of audit actions which are dependent on other projects
- Establishing an escalation process

Risk Management

29 On 15 May 2014, the Audit Committee accepted a report on Council's strategic risk profile. 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.

Audit Committee Charter

29 The existing Audit Committee Charter nominates that it be reviewed every two years. A number of amendments are proposed in the revised draft Charter, shown at **Attachment A**. The revised draft is a marked-up version, ensuring transparency by tracking changes. Comments provide the rationale for each of the proposed amendments.

30 Key amendments relate to:

- clarification, addition, removal or reordering of some clauses
- simplification of processes, including removal of separate Audit Committee Procedures
- minor changes to grammar and formatting
- updating to reflect current practices

Performance self-assessment

31 The Audit Committee performance self-assessment was conducted during July 2014. 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.

32 Three out of five members responded to the questionnaire. This represents a 60% response rate.

33 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.

34 Rating options were either 'strongly disagree', 'disagree', 'agree' or 'strongly agree'.

35 Two 'disagree' responses related to aspects of Council's risk management and one 'disagree' response related to audit planning.

36 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

37 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.

38 Reliance on internal resources is increasing. Internal resources are allocated to complete three audit engagements in the 2014/15 internal audit program.

39 In January 2013, O'Connor Marsden was appointed as Council's preferred supplier of internal audit services for a three year term. No other firms were engaged to conduct internal audits in the 2013/14 program.

40 The Audit Committee and internal audit provider are supported by an Internal Audit Coordinator.

41 A total of eight internal audits were approved for the 2013/14 period. Two additional audits were included to the program during the year. The eight internal audits completed by 30 June 2014 were:

- RMS DRIVES audit
- Revenue handling
- Contract and tender management
- GST administration
- Infrastructure project management
- Asset and civil infrastructure planning, management and maintenance
- Art Gallery redevelopment (additional)
- National Heavy Vehicle Accreditation Scheme (additional)

42 The audit of Council's mobile telecommunications was finalised during October 2014, after the end of the 2013/14 financial year.

43 The audit of Council's business continuity plan was deferred to the first quarter of 2014/2015 by approval of the Audit Committee.

Forward Internal Audit Plan

44 Management takes a risk-based approach to formulate a three year, rolling forward internal audit plan. The 2014-2017 forward internal audit plan was approved by the Audit Committee on 14 August 2014. The plan is shown at **Attachment B**.

45 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.

46 On the basis of these rankings, the Audit Committee has approved ten internal audits to be completed during 2014/2015. These are:

- RMS DRIVES (mandatory annual requirement)
- Business continuity & critical incident management

- Contract and tender management
- Business alliances, Business Improvement Associations
- Volunteer management
- National Heavy Vehicle Accreditation Scheme (mandatory annual requirement)
- Fraud & corruption prevention & control
- IT access & security
- S355 committees, community facilities
- Utilities

47 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 2014/15 is \$125,829.

48 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.

REFERENCES

ATTACHMENTS

Attachment A: Revised draft Audit Committee Charter

Attachment B: 2014-2017 Forward Internal Audit Plan

Attachment A