

**SUBJECT: CCL 13/12/16 - AUDIT REPORT COMMITTEE AND
INTERNAL AUDIT ANNUAL REPORT**

**REPORT BY: AUDIT COMMITTEE CHAIR
CONTACT: INTERIM CEO**

PURPOSE

To provide an annual report to Council on the Audit Committee's oversight of the internal audit function, the management of risk and the 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 That Council receives the Audit Committee and internal audit annual report for the 2015/2016 financial year.

KEY ISSUES

- 2 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).
- 3 Reporting to Council is required by the Audit Committee Charter.
- 4 The Audit Committee Charter was scheduled for review in October 2016, but this has been delayed pending a decision by the NSW State Government on Council's merger proposal. No Audit Committee Charter amendments are currently proposed.

FINANCIAL IMPACT

- 5 The payment of external Audit Committee members has a moderate financial impact on Council. The total annual payment to Audit Committee external members was \$22,058 for the 2015/2016 financial year which was within the operational budget.
- 6 The amount of \$25,833 was approved in the 2016/2017 budget for the Audit Committee. Councillor members of the Audit Committee are not paid.

COMMUNITY STRATEGIC PLAN ALIGNMENT

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

IMPLEMENTATION PLAN/IMPLICATIONS

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

RISK ASSESSMENT AND MITIGATION

- 9 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.
- 10 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

- 11 On 19 May 2009, Council established the Audit Committee.
- 12 On 9 October 2012, Council adopted the Audit Committee Charter to replace the previous Audit Committee Constitution. Councillors Dunn and Tierney were appointed as Councillor members to the Audit Committee.
- 13 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

- 14 This report was approved by the Audit Committee on 17 November 2016.

OPTIONS

Option 1

- 15 The recommendation as at paragraph 1. This is the recommended option.

Option 2

- 16 Council resolves not to adopt the recommendation at paragraph 1. This is not the recommended option.

BACKGROUND

- 17 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.
- 18 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.
- 19 The Committee has no power of direction over the external audit or the manner in which the external audit is planned or undertaken.
- 20 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

- 21 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 was 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, and extended again, pending the NSW State Government making a decision on the current Council merger proposal; and
 - Martin Matthews, was initially appointed until 30 June 2015 and had his contract extended for a period of 24 months to 30 June 2017.
- 22 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 the best fit with the existing Audit Committee, in terms of skill set and experience.
- 23 Audit Committee activity since November 2015 has included:
- Conducting five ordinary meetings
 - Approval of the 2016-2019 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
- 24 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

Risk Management

- 25 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.

Performance Self-assessment

- 26 The Audit Committee performance self-assessment was conducted during July 2016. 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.
- 27 Four out of five members responded to the questionnaire. This represents an 80% response rate.
- 28 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.
- 29 Performance rating options were either 'strongly disagree', 'disagree', 'agree' or 'strongly agree'.

- 30 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.
- 31 All responses strongly agreed that, overall, internal audit has made a valuable contribution to the achievement of Council's objectives.

Internal Audit

- 32 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.
- 33 Reliance on internal resources is increasing. Internal resources were allocated to complete four audit engagements in the 2015/16 internal audit program.
- 34 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.
- 35 This is a non-exclusive agreement that allows Council to appoint other, specialist audit providers as necessary.
- 36 The Audit Committee and internal audit provider are supported by an Internal Audit Coordinator.
- 37 The 10 internal audits completed for the 2015/2016 program were:
- RMS DRIVES audit
 - Council's fees and charges
 - Biennial tenders for Council's hired plant
 - Grants management and administration
 - Internal Audit self-assessment and independent validation
 - Legislative compliance
 - Risk management
 - National Heavy Vehicle Accreditation Scheme
 - Sponsorship
 - Beresfield Child Care Centre cash handling, procurement and fund-raising processes
- 38 An audit of compliance with the conditions of consent for Summerhill Waste Management Centre was commenced but deferred to conduct other audits which supported merger planning and preparation work. This review will progress during December 2016.
- 39 An audit of Council's Payroll was deferred until third quarter 2016/2017, due to the conduct of a payroll review project, which is currently underway.

- 40 An Internal audit of fire safety compliance management was deferred until second quarter 2016/17.

Forward Internal Audit Plan

- 41 Management takes a risk-based approach to formulate a three year, rolling forward internal audit plan. The 2016-2019 forward internal audit plan was approved by the Audit Committee on 26 May 2016.
- 42 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.
- 43 Completion of the 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 2016/17 is \$128,975, being approximately 2.4% higher than the budget for the previous year.
- 44 Management and the Audit Committee will review the forward internal audit plan periodically, to ensure it continues to align with Council's risk priorities.

External Audit

- 45 The Audit Committee has continued to review Council's financial position and commitment towards achieving financial sustainability.
- 46 At a meeting on 18 August 2016, 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.
- 47 The Audit Committee met on 13 October 2016 to receive briefings on the draft audit opinion and Council's financial statements in respect of the year ended 30 June 2016. A management report of significant financial matters for year ended 30 June 2016 was reviewed. The report provided summary comparative information on key financial indicators and provided an update on Council's implementation of the Audit Committee financial sustainability recommendations made in March 2013.
- 48 The Audit Committee noted Council's positive financial position.

REFERENCES

ATTACHMENTS

Nil