

**SUBJECT: CCL 27/02/18 - ANNUAL AUDIT COMMITTEE AND  
INTERNAL AUDIT REPORT**

**REPORT BY: OFFICE OF THE CEO  
CONTACT: CEO / AUDIT COMMITTEE CHAIR**

---

## **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.

## **RECOMMENDATION**

- 1 That Council:
  - (a) receives the Audit Committee and internal audit annual report for the 2016/17 financial year; and
  - (b) adopts the revised Audit Committee Charter, as shown at **Attachment A**.

## **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 has been reviewed, giving consideration to amendments pending to the Local Government Act 1993 which are expected to impact Audit Committees and the Internal Audit function of Council in the future.
- 5 Other key changes provide clearer alignment with the Office of Local Government sample Audit Committee Charter and Council's committee charter template.
- 6 A revised final version Audit Committee Charter is shown at **Attachment A**. A marked up version is shown at **Attachment B**, indicating all proposed changes.

## **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 \$20,500 for the 2016/17 financial year. This was \$958 less than budgeted.

- 8 The amount of \$26,324 was approved in the 2017/18 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 Council's Chief Executive Officer 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 At the Ordinary Council Meeting held on 19 May 2009, Council established the Audit Committee.
- 14 At the Ordinary Council Meeting held on 9 October 2012, Council adopted the Audit Committee Charter to replace the previous Audit Committee Constitution.
- 15 At the Ordinary Council Meeting held on 26 September 2017, Cr Jason Dunn and Cr John Mackenzie were appointed as Councillor Members of the Audit Committee, representing the newly elected Council.

### **CONSULTATION**

- 16 This report was approved by the Audit Committee on 1 February 2018.

### **OPTIONS**

#### **Option 1**

- 17 The recommendation as at Paragraph 1 (a) - (b). This is the recommended option.

#### **Option 2**

- 18 Council resolves not to adopt the recommendation at Paragraph 1 (a) - (b). This is not the recommended option.

## **BACKGROUND**

- 19 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.
- 20 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.
- 21 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.
- 22 The Committee has no power of direction over the external audit or the manner in which the external audit is planned or undertaken.
- 23 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**

- 24 The current status of external members is:
- (a) Dr Col Gellatly (Chair) was appointed on 3 September 2013 for an initial 12 month term and his contract has been extended until 3 September 2018.
  - (b) The contract of Martin Matthews ceased on 30 June 2017. Mr Matthews served on the Audit Committee from its inception in July 2010.
  - (c) Micah Jenkins was initially appointed until 30 June 2015 and had his contract extended to 31 December 2017.
  - (d) As the result of an open tender process, Mr Stephen Coates was appointed to replace Mr Matthews from 1 July 2017 for a period of three years and Mr Stephen Horne was appointed for a period of three years, commencing on 1 January 2018 to replace Mr Jenkins.
- 25 Audit Committee activity during the 2016/17 financial year has included:
- (a) Conducting five ordinary meetings.
  - (b) Approval of the 2018-2020 three-year Forward Internal Audit Plan.
  - (c) Endorsement of completed internal audits and implementation actions.

- (d) Receipt of briefings from PricewaterhouseCoopers and the Audit Office of NSW on Council's annual external financial audit plan and draft audit report.
  - (e) Receipt at each meeting of the most recent Monthly Financial Performance Report.
  - (f) Receipt of progress reporting at each meeting on the implementation of Enterprise Resource Planning (OneCouncil).
  - (g) Participating in a performance self-assessment.
- 26 A number of standing items are included in the Audit Committee business cycle. These are:
- (a) Annual insurance report.
  - (b) Bi-annual review of Work Health & Safety statistics.
  - (c) Risk management report at each meeting.
  - (d) Annual report on large write-offs.
  - (e) Review of the annual external audit plan and briefing on the draft external audit report.
  - (f) Bi-annual report on the performance and financial statements for Business Improvement Associations.
- 27 Audit Committee Member attendance for the 2016/17 financial year meetings are shown in the following Table 1.

Members	Meeting Dates				
	18 August 2016	13 October 2016	17 November 2016	9 March 2017	8 June 2017
Col Gellatly	✓	✓	✓	✓	✓
Martin Matthews	✓	Apology	✓	✓	✓
Micah Jenkins	✓	✓	✓	✓	✓
Cr Dunn	Apology	✓	Apology	✓	✓
Cr Waterhouse	✓	Apology	✓	Apology	✓

### Risk Management

- 28 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

- 29 The Audit Committee performance self-assessment was conducted during August 2017. 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.
- 30 All five Audit Committee members responded to the questionnaire.
- 31 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.
- 32 Performance rating options were either 'strongly disagree', 'disagree', 'agree' or 'strongly agree'.
- 33 According to survey results, the area reviewed by the Audit Committee which requires the most improvement is Council's risk management framework. Survey comments about other areas for improvement were in relation to the timeliness of implementing agreed audit actions; ensuring clarity in management responses to audit recommendations; and ensuring consultation with the committee prior to changes being made to the audit plan.
- 34 All responses strongly agreed that, overall, internal audit has made a valuable contribution to the achievement of Council's objectives.

### **Internal Audit**

- 35 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.
- 36 Internal resources were allocated to complete two audit engagements in the 2016/17 internal audit program.
- 37 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.
- 38 This is a non-exclusive agreement that allows Council to appoint other, specialist audit providers as necessary.
- 39 The Audit Committee and internal audit provider are supported by an Internal Audit Coordinator.
- 40 The 10 internal audits completed for the 2016/17 program were:
- (a) RMS DRIVES audit.
  - (b) Swimming pool safety compliance.
  - (c) National Heavy Vehicle Accreditation Scheme.
  - (d) Fire safety compliance management.

- (e) Development assessment and disclosure of political donations.
- (f) Cultural, historical and art collection management.
- (g) Data management.
- (h) Digital Print Services.
- (i) s. 355 committees.
- (j) Payroll.

### **Forward Internal Audit Plan**

- 41 Management takes a risk-based approach to formulate a three year, rolling forward internal audit plan. The 2018-2020 forward internal audit plan was approved by the Audit Committee on 8 June 2017 and is shown at **Attachment C**.
- 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 that audit priorities can be ranked.
- 43 Completion of the audit program will be subject to the management of audit costs within the budget allocated. The allocated total budget for internal audit for 2017/18 is \$285,126.
- 44 Management and the Audit Committee review the forward internal audit plan periodically, to ensure it continues to align with Council's risk priorities. Any proposed changes will continue to be referred to the Audit Committee for approval.

### **External Audit**

- 45 The Audit Committee has continued to review Council's financial position and commitment towards achieving financial sustainability.
- 46 At a meeting held on 8 June 2017, 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 12 October 2017 to receive briefings on the draft audit opinion and Council's financial statements in respect of the year ended 30 June 2017. A management report of significant financial matters for the year ended 30 June 2017 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**

Nil

**ATTACHMENTS**

- Attachment A:** Audit Committee Charter - final version without mark-up  
**Attachment B:** Audit Committee Charter - final version with mark-up  
**Attachment C:** 2018-2020 Forward Internal Audit Plan

**Attachment A**

**[Policy Final draft without mark up - Audit Co...](#)**

**Attachment B**

**[Policy Final Draft with mark up - Audit Commi...](#)**

**Attachment C**

**[Documentation - Forward Internal Audit Plan 2...](#)**