MINUTES OF MEETING

INTERNAL AUDIT COMMITTEE

HELD WEDNESDAY 28 APRIL 2010

NOTE: All minutes are subject to confirmation at a subsequent Council or Planning and Strategy Committee meeting.

PRESENT:

Councillors

Cllr Hugh Burns	Manly Council
Cllr Cathy Griffin	Manly Council

Other Representatives

John Gordon	Community Member
Brian Hrnjak	Community Member

Council Staff

Henry Wong	General Manager (left at 9-30am)
Ross Fleming	Deputy General Manager; CFO
Anthony Hewton	Staff in Charge GMU
Michael Quirk	Head of Internal Audit, North Shore Councils

TO THE MAYOR AND COUNCILLORS OF THE COUNCIL

The **Internal Audit Committee** met on 28th April 2010, to consider the matters referred to it and now provides the following advice to Council.

OPEN The meeting commenced at 8.30 am

ITEM 1 WELCOME AND INTRODUCTIONS **ACTION**

Mr Henry Wong, General Manager of Manly Council welcomed Committee members and gave a brief overview of the Internal Audit initiative and stressed its importance. Mr Wong chaired the meeting until the Chairperson was appointed under Item 3.

ITEM 2 APOLOGIES AND LEAVE OF ABSENCE

Apologies were received from the following:
Cllr Jean Hay, Mayor
Other absences were recorded for:
Cllr Mark Norek

ITEM 3	**ELECTION OF CHAIRPERSON** Mr John Gordon was elected as Chairperson for the Manly Council Internal Audit Committee.	**ACTION**
	Recommendation: That Council appoint Mr John Gordon as Chairperson for the Manly Council Internal Audit Committee for the term of the current Council and until such time as Committees are renewed following the next Local Government Election in 2012.	**IBM**
ITEM 4	**DECLARATION OF INTEREST** There were no declarations of interest declared by those present. Whilst it is not a conflict of interest, John Gordon put on the public record that he is also participating on similar Audit Committees at the following Councils being: Warringah Council, Pittwater Council, Ku-rin-gai Council, Ryde Council and North Sydney Council.	For notation
ITEM 5	**REPORT – CODE OF CONDUCT** The Committee noted that it will be required to operate under the same meeting practises those to which all Special Purpose Committees of Council adhere. This also covers personal conduct of members of the Committee. The Chairperson noted that the document was fairly standard in the Local Government Sector. Among other things, the Code of Conduct made it clear that the Committee members are delegates of Council; that it is important to treat people with respect on the Committee; and it is important that confidentiality be respected. It was noted in discussion that the minutes would be reported to Council.	
	Recommendation: The Committee recommends to Council that: i. The report is received and noted; ii. The Manly Council Code of Conduct for Community Members on Special Purpose Committees be adopted for use by the Committee to be read and used in conjunction with the Audit Committee Charter and Protocols documents. (Unanimous)	**IBM**
ITEM 6	**REPORT – BACKGROUND AND ADOPTION OF THE MANLY COUNCIL AUDIT CHARTER AND MANLY COUNCIL AUDIT COMMITTEE CHARTER** Staff and the Chairperson explained the objective of the Internal Audit Committee is to provide independent assurance and assistance to Manly Council on risk management, control, governance, and external accountability responsibilities. As this was the first meeting of Manly Council's Audit Committee in Council's 2008 -2012 term a copy of the Report to Council entitled "Internal Audit Committee" from 9 March 2009 and the accompanying Resolution [33/09] was presented for the background of the Committee. This included the proposed Manly Council Audit Charter and the Manly Council Audit Committee Charter for adoption by the Committee.	
	The Committee noted that: ➢ the development of an Internal Audit function has been subject to considerable effort in recent years by Manly Council with focus on a collaborative approach. The General	

Managers of North Sydney, Lane Cove, Hunters Hill, Willoughby, Mosman and Manly Councils have formed a co-operative partnership to establish a joint internal-audit unit. Mr Michael Quirk has been appointed as Head of Internal Audit, North Shore Councils, and is based at Willoughby Council.

ACTION

- The Department of Local Government has recommended that Council adopt two Charters one being the Internal Audit Charter and the other being the Internal Audit Committee Charter. The Internal Audit Charter details the function of internal Audit and the role of Internal Auditor, where as the Internal Audit Committee Charter details the function and structure of the Committee.
- The two draft Charters which have been developed are based on the drafts provided by the Department, of Local Government who has prepared them in consultation with the NSW Local Government Internal Audit Network and the Institute of Internal Auditors.

Clarifications sort by the Committee were as follows:
The Committee discussed both Charters and sought the following clarification and/or amendments to the Charters:

- They wished to record all for and against for each item resolved by the Committee.
- All Councillors (outside of the nominated Councillors on the Committee) are welcome to attend meetings if they wish as observers.
- Minutes will be published except confidential items under the NSW Local Government Act provisions.
- The Committee wants the Internal Auditor to have the facility to meet with the Chairperson as required.
- The Committee would like at least an annual opportunity in the form of a private meeting to meet with the Internal Auditor without any staff present.
- Consideration be given to renaming the Internal audit Committee to the "Audit and Risk Committee" consistent with industry practice and recommendations from the NSW Department of Local Government.

Michael Quirk the Internal Auditor took these points on notice and noted that any refinements coming back to the Committee on the charter documents also needed to be as consistent as possible with what the other participating Councils had adopted, as well as the requirements of the Department of Local Government.

Recommendation:

i. The Committee received and noted the Internal Audit Charter and the Internal Audit Committee Charter documents for use as interim documents pending some amendments in relation to the recommendations raised in the meeting. **IBM**

ii. That a further report be prepared by the Internal Auditor received by Committee of this matter at its next meeting. (Unanimous).

ITEM 7 REPORT – ADOPTION OF THE NORTH SHORE COUNCILS INTERNAL AUDIT OPERATING PROTOCOLS **ACTION**

A copy of the **North Shore Councils Internal Audit Operating Protocols** was presented for adoption by the Committee.

The Committee was advised that:

- The General Managers of North Sydney, Lane Cove, Hunters Hill, Willoughby, Mosman and Manly Councils have formed a co-operative partnership to establish a joint internal-audit unit.
- Mr Michael Quirk has been appointed as Head of Internal Audit, North Shore Councils, and is based at Willoughby Council.
- The Operating Protocols were agreed by the General Managers of each of the participating Councils following a meeting convened at Willoughby Council on Thursday 1st April 2010.

Committee members wanted the following points noted:

- The Internal Audit program requires the cooperation of Management.
- The Internal Auditor needs responses from Management within a ten day turnaround time wherever possible.
- A standing item on the Internal Audit Committee Agenda should be a schedule of Internal Audit recommendations together with the status as to their implementation and identifying unresolved and overdue actions.
- The Operating Protocols will most likely be refined over time as the program rolls out and the joint Internal audit function employs more resources.

Recommendation:

The Committee recommends to Council that: **IBM**

i. The Report be received and noted; and
ii. The North Shore Councils Internal Audit Operating Protocols be adopted.

ITEM 8 REPORT – DRAFT INTERNAL AUDIT PLAN

The Internal Auditor Michael Quirk presented the following information:

The attached draft Program aims to deliver a *universal audit program* that benefits all six (6) Councils. This proposed program takes into account the level of maturity of enterprise risk management across all six Councils and an interpretation of risk issues to date.

An alternative approach to the program could see a tailored program of individual topic audits conducted in each Council. This approach would provide between two and three audits for each Council on an annual basis, together with the shared learning from approximately ten other audits.

In order to provide value from the joint Internal Audit service across six Councils, alternative models for conducting the audits are being developed.

Models which engage Council staff in conducting process understanding and testing tasks can reduce the need for Internal Audit input by up to 40%. Similarly, the use of control self assessment audits can significantly reduce the need for Internal Auditor input.

ACTION

It should be noted that all of the models developed do require a certain level of checking by the Internal Auditor in order to provide the required assurances about control. The proposed audits of Cash Collections and Credit Cards reflect the proposed self assessment model.

The *estimated total timeframe* provided is an estimated auditing timeframe based on efficiencies by conducting the same audit across six Councils. The timeframe on the Audit Plan is the estimated total auditing time required which may span across a number of months to allow for client input. A total estimated timeframe of 52 days for an audit equates to less than 8 days at each Council. Estimated total timeframes will be refined as further information is gathered regarding each Council's systems and information availability.

The *estimated start date* reflects the span of auditing across the year and known impacting events. The timing of individual Council engagements will be negotiated in detailed planning for each audit. The estimated start dates will be impacted by any changes in priorities and excessive delays in client responses to audit requests.

Other comments noted:

- Priority areas should be payroll and purchasing; also the management of cash collection and invoicing.
- At the end of the first twelve months focus will move into:
    - 'Soft' (non financial) Policy issues
    - Planning
    - A tailoring of the internal audit plan to take into account the organization wide risk assessment by Manly Council. Such an assessment would allow the Internal Audit programme to better target risk areas within Council. The Chairman indicated that such an assessment had recently been performed in another Sydney Council and they might offer some feed back to Manly Council management on the process.
- An interim report will be provided informed by Council's External Auditors. Following the interim report the internal audit Committee will receive feedback on this.
- It was noted by the Committee that the joint Internal Audit service was still in its development phase and that the programme would be more comprehensive and refined in future years.

Recommendation:

The Committee recommends to Council that the North Shore Councils Internal Audit Program proposed for 2010/11 be adopted by Manly Council as presented in the report.

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ITEM 9	**REPORT – MEETING SCHEDULE FOR 2010** It is proposed that the Committee will meet at least quarterly. The following dates were set for future meetings as contained in the recommendation below. **Recommendation:** That the Internal Audit Committee timetable for meeting be as follows: Tuesday 27th July 9am Tuesday 26th October 2010 9am Tuesday 1st February 2010 9am	Committee and Council to note
ITEM 10	**NEXT MEETING DATE:** Date: Tuesday 27th July Time: 9.00am Venue: The Cove Meeting Room , Manly Council Chambers Building	

Meeting closed at 11.00 am