MINUTES OF MEETING

AUDIT AND RISK COMMITTEE

HELD TUESDAY 23 NOVEMBER 2010

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

PRESENT:

Councillors

Cllr Jean Hay, AM, Mayor	Manly Council
Cllr Hugh Burns	Manly Council
Cllr Cathy Griffin	Manly Council

Other Representatives

John Gordon	Community Member (Chair)
Brian Hrnjak	Community Member

Council Staff

Ross Fleming	Deputy General Manager, PPI
Anthony Hewton	Staff in Charge GMU
Michael Quirk	Head of Internal Audit, North Shore Councils

TO THE MAYOR AND COUNCILLORS OF THE COUNCIL

The **Audit and Risk Committee (the Committee)** met on 23rd November 2010, to consider the matters referred to it and now provides the following advice to Council.

		ACTION
OPEN	The meeting commenced at 9.30am	
ITEM 1	**APOLOGIES AND LEAVE OF ABSENCE**	
	Cllr Norek was absent from the meeting without apology. Secretariat to write to Cllr Norek noting absences without apology, and requesting if he could confirm if he wishes to participate on Committee.	
	Recommendation: Secretariat to write to Cllr Norek noting absences without apology and requesting if he could confirming if he wishes to participate on the Audit and Risk Committee.	Secretariat to write to Cllr Norek
ITEM 2	**DECLARATION OF INTEREST** There were no declarations of interest declared by those present.	For notation

ITEM 3	**CONFIRMATION OF MINUTES** The minutes of the Committee meetings held 31 August and 13 September 2010 were confirmed. These minutes were adopted by Council on 7th February 2011. **Recommendation** That the minutes of the Committee meetings held 31 August and 13 September 2010 were confirmed. These minutes were adopted by Council on 7th February 2011.	**ACTION** For notation
ITEM 3.1	**Business Arising** The Chair requested if staff could produce a matrix for key resolutions of the Committee. **Recommendation** That staff produce a matrix for key resolutions of the Committee.	Secretariat & staff to note
ITEM 4	**Report - Internal Auditor's report on Tendering** The Internal Auditor circulated the draft executive summary on his Tendering Audit to the Committee (see attached). The following points were noted from his presentation: ➢ Internal Auditor awaiting feedback from Managers involved in the audit so the final report Is still pending. ➢ Expenditure greater than $150,000 should go to public tender. ➢ Noted that councils can purchase by picking suppliers off State Supply Contract list of suppliers and similar Local Government Act procurement arrangements. ➢ The tender process at Council follows reasonable guidelines that have been set. ➢ The audit involved the review of 5 tenders selected at random and from across the organisation (not just one area) and involved checking the process which was undertaken and its compliance in terms of the controls you would expect to see in a Local Government environment and set by Council. ➢ It was observed Tendering is highly devolved at Manly Council so some variation was noted in the processes undertaken by different Managers. ➢ Policies and procedures were last updated in 2006; these were ahead of their time then but it would be good to now update these to ensure they comply with current best practice. There was evidence a lot of information had been circulated to staff over the past year on tendering procedures and protocol. Possibly more training could compliment this. ➢ Capturing of all records in EDMS and not just hard copies is important. This was noted in the Sinc Solutions' Records Management report. ➢ Important to ensure all that tenders state the assessment criteria including in advertisements, and the weighting of criteria is clear in all documentation. ➢ Important to provide a balance in procedures and processes between what is genuinely commercial in confidence and the requirements of the GIPA Act. Following discussion, the Chair put forward and the Committee	

agreed that the implementation of a Tender Review Committee at Council would be a good idea to forward to the Auditor for his consideration in his final report.

ACTION

Recommendation:
The Committee recommends to Council that:

I. The Committee notes the Internal Auditor's update report on the Tendering Audit and agrees with the recommendations of the draft report.
II. Feedback from the General Manager on the draft and / or final report is requested. **GM**
III. That a copy of the final report received by the General Manager be forwarded to the Committee with management responses.

ITEM 5 Report - Internal Auditor's report on Cash Handling

The Internal Auditor circulated his executive summary report on the Cash Handling Audit to the Committee (see attached). The following points were noted from his presentation:

- The final report is still pending.
- Four of the eleven sites across Council including out-posted facilities were audited.
- Cash recorded as collected had been receipted and deposited into the bank in a timely manner at Council's main cashiering centre.
- The diversity across Council's various businesses that handle cash means different approaches have developed around detailed procedures at different sites. While these have been tailored to the specific needs of areas concerned there may be some benefit in developing an overall more consistent, corporate, approach to cash handling.

Recommendation:
The Committee recommends to Council that:

The Internal Auditor's Executive Summary Report on cash handling processes at Manly Council be received and noted; and a final report be submitted to the Committee with Management responses.

ITEM 6 Report - Update on Overall Internal Audit Program

The Internal Auditor Presented the written report - Update on Overall Internal Audit Program (see attached) Points noted:.

- The current agreed staffing for the Internal Audit function across the six member Councils comprises the Head of Internal Audit, and a full-time Internal Auditor.
- Recruitment action for the Internal Auditor position commenced in April 2010 with a second round of recruitment action resulting in the appointment of an Internal Auditor who commenced duty on 30 August 2010.
- The delay in recruitment of the Internal Auditor has resulted in the initial program devised being behind schedule. The full extent of the slippage is shown by revised dates on the attached Internal Audit Program.
- The *Audit of Credit Cards* has commenced with Initial

Control Questionnaires being completed by member Councils and a detailed Audit Plan completed. Field testing has commenced.	**ACTION**

- ➢ Planning and research has commenced for the *Audit of Records Management*.
- ➢ Completed Audits in the Current Period include the *Audit of Cash Handling* (shown as Cash Collections) and the *Audit of Tendering Processes.*

Recommendation:
The Committee recommends to Council that the Internal Auditor's Report on the overall Internal Audit Program be received and noted.

ITEM 7 **Report - Schedule of Meetings for 2011**

Proposed Meeting Dates for 2011 were noted by the Committee: — All to note

February 22, 2011
May 24, 2011
August 23, 2011
November 22, 2011

Note: 22nd February 2011 meeting subsequently rescheduled to Thursday 24th March, 2011, commencing at 8-30am.

Recommendation:
That the report be received and noted, and dates reconfirmed closer to each meeting, or at least one week out from any rescheduled meeting.

ITEM 8 **Report - Revised Internal Audit Guidelines**

The Internal Auditor reported:

The Division of Local Government of the Department of Premier and Cabinet has released revised Internal Audit Guidelines for local councils in NSW. The revised Internal Audit Guidelines are Director General's Guidelines for the purposes of section 23A of the *Local Government Act 1993*. A copy of the revised Internal Audit Guidelines is attached to this report.

In 2009 the Division of Local Government conducted a survey of councils to ascertain the progress made towards implementing the Internal Audit Guidelines issued in October 2008. The results of the survey revealed that while considerable progress had been made toward the implementation of the Internal Audit Guidelines, there were some areas where further benefits could be achieved by strengthening or clarifying the Guidelines. Accordingly revised Internal Audit Guidelines have now been prepared that take into account the findings of the survey.

Councils have been asked to review and update their internal audit arrangements to ensure they are consistent with the revised Internal Audit Guidelines. Head of Internal Audit, Michael Quirk, is currently analysing the new Internal Audit Guidelines to ascertain their impact on each of the North Shore Councils. He will be preparing a report for the next meeting of Manly Council's Audit and Risk Committee. Any changes to the Audit and Risk Committee Charter resulting from the new Guidelines would need to be approved by Council.

The Committee wished to have noted:

ACTION

- The Status of the Mayor's participation in relation to the DLG Guidelines.

Recommendation:
The Committee recommends to Council that:

I. the revised internal Audit Guidelines be received and noted.
II. the Committee receive a further report from the Internal Auditor outlining any changes proposed to the Audit and Risk Committee Charter resulting from the new DLG Guidelines that would need to be approved by Council.

ITEM 9 Report - Ombudsman's Recommendations 7.8 and 7.21

The staff report advised the Committee that the Ombudsman's Final Report on Council's handling of complaints from two complainants was reported to Council on 11 October 2010 as Mayoral Minute No. 12. Contained within the Report were 24 recommendations, two of which are as follows:

7.8 The elected Council ensures its Audit Committee either conduct or oversight the conduct of an audit of the expenditure of Council's funds on legal advice and legal action and develop a plan to manage legal costs in accordance with the Council's Budget and Management Plan. A part of the audit should include reviewing the current arrangements for the provision of legal advice, the approval arrangements and the reporting obligations regarding the provision of legal advice and the taking of legal action. This audit should be conducted within three months of the date of the issuing of this report.

7.21 The elected Council requires its Audit Committee or the newly appointed internal auditor to audit the implementation of the recommendations for improving Council's records management processes as listed in Sinc Solutions' November 2008 report within three months of the issuing of this report.

The Mayor and Cr Griffin both provided briefings to the Committee on the overall status of the Ombudsman's Report including the fact that a Special Committee of Council with full Councillor involvement has been established to oversee all aspects of the implementation of the Ombudsman's report.

The Chair requested that he and community member Brian Hrnjak receive further information on the scope / brief for the further audits planned in relation to Legal Services and Records Management from the Internal Auditor and a copy of the Ombudsman's Report.

Recommendation:

I. That the Internal Auditor proceeds in terms of the Ombudsman's Recommendations 7.8 and 7.21.
II. That the Internal Auditor, as a matter of priority, scope the audits recommended by the Ombudsman (including resourcing / budget required to undertake these) and proceed to undertake these audits as soon as possible.
III. That the Internal Audit Program be reviewed at the next meeting in the light of these new Audits.

IV. That the Internal Audit Committee notes the Sync Solutions' report on Records Management 2008 which had previously been prepared for Council in relation to Records Management. Also that an Internal Audit of Records Management is already on the Internal Audit Program commencing in December 2010, and is scheduled to be reported back to the Committee at its first meeting in 2011.

ACTION

ITEM 10 General Business

No items recorded.

ITEM 11 NEXT MEETING DATE:

Initially set for 22nd February, 2011 & subsequently changed to:

All to note

Date: Thursday 24 March, 2011
Time: 8.30am
Venue: The Cove Meeting Room, Manly Council Chambers.

Meeting closed at 11.40am

Head of Internal Audit

Internal Audit Executive Summary Report

Subject:	**Tendering Processes -**Report Approved

Objective and Scope	The objectives of the review were to provide Council with assurances that: 1. Procurement practices comply with section 55 of the Local Government Act 1993; 2. Councils' tendering practices and procedures comply with the Local Government Act and Regulations; 3. Tendering practices and procedures are undertaken with due regard to accepted probity principles including transparency, accountability, value for money and management of conflicts of interest. The scope of the review was to evaluate the effectiveness of processes and controls for tenders let by Council during the period 1 July 2009 to 31 March 2010 in accordance with current legislation and guidance.

Major Findings	The review found a fair level of understanding by staff of the policy and procedures relating to tendering. Tendering is highly devolved which is reflected in considerable variation in approach by Council officers, and varying levels of documentation as new procedures become more widely used. Council updated its Purchasing and Tendering Policy and Guidelines in 2006 on the basis of legislative and statutory guidelines available at the time. Some training in updated requirements and procedures was provided to managers in 2009. During the course of the review we were made aware of two confidential reports relating to a review of Records Management undertaken by Sinc Solutions in December 2008 and March 2009. A number of the records management issues raised in the Sinc Solutions review have direct relevance to the control of tendering processes. This current review did not seek to validate the findings of the Sinc Solutions review nor did it review the implementation of recommendations in the Sinc Solutions review. Specific processes for improvement which are identified in the review findings include: 1. The need for updating of purchasing and tendering policies and guidelines to reflect current statutory guidelines, and to ensure consistency; 2. The need for standard Conditions of Tendering clauses and tendering checklists; 3. The need for all tender documents to be entered into the Electronic Document Management System (EDMS) in a complete and timely manner; 4. The need for more pro-active management of potential conflicts of interest by staff and contractors; 5. The need for tender assessments to be in accordance with pre-defined plans and to provide more accountability; 6. The need for communications with tenderers to be within defined protocols and documented; and 7. The need for training for improvement in tendering processes. <u>Importantly, the review found no evidence of fraud, or intentional breach of Section 55 of the *Local Government Act, 1993*.</u>

Summary of Recommendations	The review provided 24 detailed recommendations for improvement. A summary of the significant recommendations include: 1. Policy and procedure documents should be updated to reflect current legislative and administrative requirements, and all staff trained in the updated provisions. 2. Council further develop procedures for the disclosure of conflicts of interests and the management of external experts in tendering. 3. Council develop standard templates for conditions of tendering which include provisions for complaints and references to relevant Council procurement and lobbying policies. 4. Council further develop the use of Tenderlink to record and report on all specifications accessed, and control of electronic tender box keys be centralised. 5. Tender Evaluation Plans be prepared and signed by all members of the Tender Panel, and individual assessments recorded on file. 6. Corporate procedures and guidelines be developed covering the evaluation of all tenders which incorporate a number of existing local procedures and practices. 7. The Policy and Guidelines should be updated to include detailed protocols for communications between Council officers and tenderers. 8. The Policy and Guidelines should provide checklists and re-inforce the requirements for retention of documents into the EDMS. 9. The Policy and Guidelines include a framework for conducting and reporting post-tender reviews.

Overall Opinion and Rating	The concerns identified in the report indicate that the **Control Environment Requires Improvement** (several issues of concern noted which were mainly of a Moderate Risk nature). **Control Environment Rating** 3

Current Status	Details of implementation of the review recommendations will be included in future reports to the Audit Committee.

Head of Internal Audit

Internal Audit Executive Summary Report

Subject:	**Cash Handling -**Report Approved

Objective and Scope	The objectives of the review was to provide Council with assurances that: 1. Safeguard Cash and the employees working with cash; 2. Determine whether the Cash on hand is properly stated; 3. To determine that receipts are prepared for all monies received; 4. To determine that all cash and cheques received are deposited daily and to detect the rolling of cash; 5. To confirm that all receipts due to the Council through the post are recorded completely and accurately; 6. To confirm that all amounts transferred to other Council offices are recorded completely and accurately; 7. Determine whether stationery controls are adhered to; 8. To confirm whether there is adequate segregation of duties in the department; 9. To confirm that manual receipts are recorded completely and accurately; and 10. To confirm that daily balancing is done daily and accurately and completely. A risk based approach was adopted for this review which was undertaken as follows: • A review of Control Self Assessment Questionnaires (CSA) and Internal Control Questionnaires (ICQ); • A substantive control test of various cash handling units; • Discussions with operations staff and program managers; The scope of the review was to evaluate the effectiveness of processes and controls for cash collections at Council's Civic Centre, Art Gallery, Library and other outpost locations.

Major Findings	Our overall review of cash collection procedures at Manly Council identified the following good practices in place: ▪ Various Procedures and " Work Instruction" developed by various out post which handle cash transactions; and ▪ Cash recorded as collected had been receipted and deposited into the bank on a timely manner at Council's main cashiering centre. While we acknowledge the above good practices, our review found common internal control weakness at various cash collection points as follows: • No current overarching council policy in relation to cash handling to ensure security over cash; • The physical access security to the Swimming Pool, Civic Centre , Library and Art Gallery safes should reviewed to ensure no single access to the cash; • Lack of monitoring oversight of daily till balancing report from Visitor Information Centre & Art Gallery to ensure completeness and accuracy of the reports; and • Our audit review identified procedural weaknesses at Council's Civic

	Centre, Visitor Information, Manly Andrew “Boy” Charlton Swim Centre and substantial weaknesses at Art Gallery and Library of overall physical control of cash collections. Importantly, the review found no evidence of fraud or intentional breach of the *Local Government Act, 1993*.

Summary of Recommendations	The review provided 40 detailed recommendations for improvement covering the various operations that handle cash. Council management have accepted 37 of the detailed recommendations and has considered the remaining matters in light of resources and remote credit capabilities. A summary of the significant recommendations include: 1. Policy and procedure documents should be updated across all cash collection areas to reflect contemporary control requirements, and all staff trained in the updated provisions. 2. Access to cash safes should be restricted to a minimum. 3. Access to cash and cash counts subject to segregation controls. 4. Control of cash overs/shortages to be improved. 5. Issue of receipts for all cash transactions to be reinforced and visual display registers implemented where possible. 6. Regular surprise cash counts to be re-introduced. 7. Standard end-of-day balancing and reporting procedures to be implemented. 8. Expansion of EFT and credit card facilities at remote sites to be considered. 9. Sale of Busker Licenses and Events tickets to be undertaken at Civic Centre.

Overall Opinion and Rating	The concerns identified in the report indicate that the **Control Environment Requires Improvement** (several issues of concern noted which were mainly of a Moderate Risk nature). **Control Environment Rating** 3

Current Status	Details of implementation of the review recommendations will be included in future reports to the Audit Committee.

NORTH SHORE COUNCILS AUDIT PROGRAM – 2010-2011

Audit	Description	Benefit	Prop Coverage	Total Est. Timeframe	Est. Start Date	Est. Finish Date
Cash Collections	Controls from sale/receipt to bank reconciliation	Fraud prevention, savings in shared collection procs.	All by self assessment and sample desk check	33 days	21/04/10	30/08/10 15/11/10
Tendering Procedures	Compliance with Regs & Guidelines	Probity and predictable outcomes.	All by individual testing	52 days	03/05/10	02/08/10 08/11/10
Credit Cards	Controls from issue of cards to accounting	Fraud prevention, reputation risk mitigation	All by self assessment and sample desk check	33 days	16/08/10	20/12/10
Records Management	The extent of corporate records capture	Compliance and efficiency	All by individual testing	52 days	30/08/10 01/11/10	29/11/10 01/03/11
Commercial Leasing	Controls from decision to management and accounting	Predictable leasing outcomes	All by individual testing	52 days	20/12/10 **16/05/11**	22/03/11 12/08/11
Payroll Data Integrity	Controls to ensure integrity	Lower IR issues, fraud prevention	All by individual testing	52 days	07/03/11 **01/01/11**	24/05/11 21/03/11
EFT Payments	Controls from payment system to bank reconciliation	Fraud prevention	All by individual testing	52 days	04/04/11 18/04/11	05/07/11 19/07/11

CONTINGENCY PROJECTS (to be commenced subject to availability of resources) – may be transferred to 2011/12 program						
Capital Projects	High-level assessment of Probity controls	Consistent and scalable probity framework	All by individual testing	52 days		
Asset Disposal	Controls from decision to accounting		All by individual testing	52 days		
IT Projects	Controls over management of IT change projects		All by individual testing	52 days		
Asset Renewal	Controls over the planning and reporting of major asset projects		All by individual testing		Proposed by WCC Audit Committee 21/04/2010	
Contract Management	Controls over procuring, evaluating and monitoring contracts		All by individual testing		Proposed by Mosman Audit Committee 5/08/2010	

Adopted by General Managers 1 April 2010
Revised 20 October 2010