MINUTES OF MEETING

AUDIT AND RISK COMMITTEE

HELD TUESDAY 31 MAY 2011

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 (8.45am to 9.30am)
Cllr Cathy Griffin	Manly Council
Cllr Hugh Burns	Manly Council

Other Representatives

John Gordon	Community Member (Chair)
Brian Hrnjak	Community Member

Council Staff

Ross Fleming	Deputy General Manager, PPI (arrived 9.35am)
Anthony Hewton	Staff in Charge GMU
Michael Quirk	Head of Internal Audit, North Shore Councils
Jenny Nascimento	Manager Financial Services (8.45am to 10.05am)

Invited Guests

Nil

TO THE MAYOR AND COUNCILLORS OF THE COUNCIL

The **Audit and Risk Committee (the Committee)** met on 31st May 2011, to consider the matters referred to it and now provides the following advice to Council.

		ACTION
OPEN	The meeting commenced at 8.45am.	
ITEM 1	**APOLOGIES AND LEAVE OF ABSENCE** No apologies were received for the meeting. Cllr Norek was absent from the meeting without apology. Cllr Norek's record of attendance at the Committee is as follows: 28 April 2010: Absent without apology 31 August 2010: Absent with apology 13 September 2010: Absent without apology 23 November 2010: Absent without apology 31 March 2011: Absent without apology The Secretariat wrote to Cllr Norek informing him that he has missed three consecutive meetings and is requested to indicate if he intends to continue as a member of the Committee. This letter was tabled at the meeting. No response has been forthcoming from Cllr Norek, hence he is no longer considered to be a member of the	

Audit & Risk Committee.

Therefore, membership of the Audit & Risk Committee now stands at three Councillors (being Cllr Jean Hay (Mayor), Cllr Hugh Burns, and Cllr Cathy Griffin) and two independents (being John Gordon and Brian Hrnjak). Also refer to Item 7 below.

The Internal Auditor reminded the Committee that the DLG Guidelines state that a majority of the Committee membership should be independents. The Chair indicated that the current membership is suitable, and that, as Chair, if there is a split decision, he has the casting vote.

Recommendation:
The Committee unanimously recommends to Council that the Secretariat write to Cllr Norek informing him that he is no longer a member of the Committee.

IBM / 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 meeting held 24th March 2011 were confirmed. These minutes were tabled at the 4th April 2011 Council Meeting, as Council resolution 56/11.

Moved: Cllr Jean Hay Seconded: Cllr Cathy Griffin

Recommendation:
The Committee recommends that the minutes of the Committee meeting held 24th March 2011 be confirmed.

For notation

ITEM 3.1 Business Arising

The Chair again requested that staff produce an Action List for the Secretariat for key resolutions of the Committee, tracking actions arising, and progress towards completion. This Action List is to be signed off by the Committee at the beginning of each subsequent meeting.

Recommendation:
The Committee recommends that staff produce an Action List for the Secretariat for key resolutions of the Committee, and that this list be reviewed as a Standing Item on the Agenda.

Secretariat & staff to note and prepare for next Committee meeting

ITEM 4 Report – Implementation Status on Actions Recommended from Previous Audits being Cash Handling, Credit Card Usage, Records Management, Legal Services Expenditure Review & Tendering

Since the commencement of the Internal Audit Program in 2010, five audits have been completed and previously reported to the Audit and Risk Committee. This item provided updated information on the implementation of recommendations arising out of the five audits:

Cash Handling:
The Manager Financial Services spoke to the Action Plan on

Implementation of Report Recommendations, and indicated that staff are making good progress with procedures for cash handling, and advised that all sites have been informed of Council's policy on surprise audits. Cllr Burns requested that the Committee be supplied with an example of a typical procedure document. The Manager Financial Services undertook to table one at the next meeting.

Tendering Procedures:
The Head of Strategy informed the meeting that a Tender Review Panel has been set up, and will have an oversight role over all Tenders. The Action Plan on Implementation of Report Recommendations will be updated for the next meeting.

Cllr Burns stated that the Review Panel should review the process for allocating weightings on evaluation criteria, and undertake a review of industry best practice with regard to what information about each tender can be disclosed. The Internal Auditor stated that recent Departmental guidelines informed councils what has to be complied with, and, in his opinion Manly Council's reports on confidential Tenders provide a high level of information, and, in some cases, more information than other councils.

Progress Report for next meeting requested

The Chair requested that a short update on progress on implementation of recommendations be reported to the next meeting.

Credit Cards:
The Manager Financial Services spoke to the Action Plan on Implementation of Report Recommendations, and indicated that staff have made good progress with completing these recommendations, as Council has a limited number of credit cards.

Records Management:
The Head of Strategy informed the meeting that funds have been allocated into the Budget for the new financial year for a replacement record management system.

Progress Reports for next meeting requested

The Head of Strategy undertook to report back to the next meeting on progress on implementation of recommendations, and a progress report on the development of a new records system.

Legal Services and Expenditure:
Good progress made with the 3 recommendations. The Chair stated that the expected completion timeframe of mid June was satisfactory.

It was recommended that the report prepared by the Internal Auditor and the five Action Plans on Implementation of Report Recommendations as updated by staff be received and noted.
Moved: Cllr Cathy Griffin Seconded: Mr John Gordon

Recommendation:
The Committee recommends that:

I. The Internal Auditor's Report on Implementation of Recommendations Internal Audit Reports be received and noted; and

II. The Committee receives feedback from staff and the Internal Auditor at periodic intervals on how each of the recommendations is being implemented by Council.

ITEM 5 Report – Overall Work Plan Progress Report

The Internal Auditor presented and spoke to his written report on the Overall Internal Audit Program 2010-2011:

- Fieldwork has been completed for the paper based *Audit of Payroll Data Integrity* and the audit report is currently being drafted. No untoward or unexpected findings have arisen from this audit.

- Following consideration by Council management, it is expected that this report will be available for the next meeting of the Audit and Risk Committee. Stage 2 of this audit will involve the setting up of a database audit system.

- Cllr Burns asked whether this audit involved the checking of approved overtime. The Internal Auditor responded that this was included in the audit as part of the approval process. However, the audit did not extend to whether the approved overtime was either necessary or effective.

- Planning has commenced on the *Audit of EFT Payments* with testing likely to commence in early June. Then the *Audit of Commercial Leasing* will be next, possibly commencing in July.

- Progress on completion of the Internal Audit Program is behind schedule. However, with regard to completion of the programmed audits, it is likely that the programmed audits will be finalised close to the planned dates.

It was recommended that the Report be received and noted.

Moved: Cllr Cathy Griffin Seconded: Cllr Hugh Burns

Recommendation:

The Committee recommends that the Internal Auditor's Report on Overall Internal Audit Program 2010-2011 be received and noted.

ITEM 6 Report – Proposed Internal Audit Program 2011-2012

The Internal Auditor presented and spoke to his written report on the Proposed Internal Audit Program 2011-2012:

- The Draft Internal Audit Program has been approved in principle by the General Managers of the six member Councils, and is now being proposed to the Audit Committee of each Council. It should also be noted that the current 2011-2012 program is based on current resources.

- The overall aim is to have identical programs across each of the six member councils, however, the efficiencies have not been as high as had been hoped, as differences between councils is actually greater than similarities. Therefore, shared learnings are not as great as had been expected. Notwithstanding these drawbacks, the member councils are attaining a better understanding of risk, and there are real improvements.

- After questioning by Cllr Burns the Internal Auditor agreed that the Program is a compromised list reached by the General Managers. However, he stated that this is still the best approach to take for shared auditing services.

- Discussion followed on resourcing and requests for additional audits. Cllr Griffin requested an audit of monies received from sporting groups and how this money is expended. The Internal Auditor responded that Sport and Recreation is on the extended list. Cllr Griffin requested that an audit of processes and procedures relating to Parks and Reserves be brought forward. The Internal Auditor indicated that consideration will be given to the potential inclusion of such an audit.

- Cllr Burns requested audits on compliance matters including DAs and buildings, Sec 94, parking, and ranger activities. The Internal Auditor responded that an audit could be conducted on Council's framework/policies, however, the current focus of audits is on efficiency and economy. Audits on levels of effectiveness would be desirable but additional resources would be required.

- The Chair summarised by acknowledging that the current audit program is under resourced, however, this must be viewed in the context it is coming from a zero base. Council still needs to develop a more structured understanding on risk management to better focus its Internal Audit resources in future.

Recommendation:

The Committee recommends to the General Manager that: **GM**

i. The Internal Auditor's Report on the Proposed Internal Audit Program for 2011-2012 be received and noted;
ii. The draft North Shore Councils Internal Audit Program 2011-2012 be endorsed;
iii. Consideration be given to the incorporation of effectiveness audits into the overall program, as resources permit;
iv. Consideration be given to identifying any Manly specific risks and doing a few cameo reviews, as resources permit;
v. The Internal Auditor and his staff be acknowledged for the quality and volume of their work done to date.

ITEM 7 Report – Impact of Revised DLG Internal Audit Guidelines

The Internal Auditor presented and spoke to his written Report on the Impact of Revised Internal Audit Guidelines. A discussion followed, including discussion on the proposed amendments /additions to Council's Audit and Risk Committee Charter, as circulated.

- Voting Membership of the Committee: it was agreed that membership of the Committee consist of:
  - Three Councillors
  - An independent external member (not a member of the Council)

- o An independent external member (an independent to be the chairperson).

- Notwithstanding the Revised DLG Guidelines the Committee wished to endorse the retention of the current Mayor (Cllr Jean Hay) as a Councillor member of the Audit and Risk Committee.

The following further points were made regarding Council's Audit & Risk Committee Charter:

- With regard to "5. Reporting" and the additional last sentence: *"The Committee will report regularly, and at least annually, to the governing body of council on the management of risk and internal controls."*
  The Chair suggested that the Committee report annually to Council after the issuing of the Financial Statements, say, in November each year. This report should also refer to the outcomes of the Committee's bi-annual review. It was also suggested that the Chair attend the pre-Council-meeting dinner, and brief the Councillors on any contentious issues contained within the annual report.

- Cllr Burns suggested that exception reporting to Council be conducted if and when necessary.

- With regard to "6.4 Conflicts of Interest", Cllr Burns questioned the need for the additional first paragraph. The Internal Auditor stated that it was taken directly from the DLG Guidelines.

- The Chair raised the matter of the need, if any, for the two independents to provide an annual confidential Declaration of Pecuniary Interest, and offered to provide Mr Hewton with a sample declaration for review by Council's Counsel.

Chair to provide sample declaration of interest form.

It was recommended that the Report and the attached Audit and Risk Committee Charter (as revised) be received and noted.

Moved: Cllr Cathy Griffin Seconded: Cllr Hugh Burns

Recommendation:
The Committee recommends to Council that:

IBM

i. The Internal Auditor's Report on the Revised DLG Internal Audit Guidelines be received and noted;
ii. The Audit and Risk Committee Charter (as revised and attached) be adopted.
iii. Notwithstanding the Revised DLG Guidelines, the current Mayor is endorsed as a Councillor member of the Audit and Risk Committee.

ITEM 8 GENERAL BUSINESS

ITEM 8.1 Tabled document: *Audit Committee: A Guide to Good Practice for Local Government* published by Local Government Victoria

The Chair tabled the above mentioned document as an example of good practice audit guidelines.

Recommendation:
The information be received and noted.

ITEM 8.2 Audit of Financial Statements

The Chair asked if any issues have arisen with regard to the Financial Statements being prepared by the External Auditor.

The Deputy General Manager indicated that Council was still in the early stages of the audit program, and would send the Financial Statements to the two independent members as soon as practicable, and, hopefully, when these are close to being signed off as final, whilst still allowing sufficient time for review by the two independents.

It is anticipated that the Statements will be reported to Council in September. Staff will incorporate sufficient time in the schedule to allow for the Audit and Risk Committee to review the accounts before being reported to Council.

Recommendation:
The information be received and noted.

ITEM 8.3 ICAC REPORTS

The Chair inquired as to whether Council regularly reviews Reports prepared by ICAC, with a view to using this information as business intelligence and ascertaining whether there are any issues or learning's for Manly Council to incorporate into its business practices.

The Head of Strategy stated that such reports are circulated to the Senior Management Team.

Note: Subsequent to this meeting all Government Agency circulars are also reported to Council on a monthly basis as matter of standard procedure in addition to circulation to senior staff.

Recommendation:
The information be received and noted.

ITEM 8.4 AUDIT AND RISK COMMITTEE INFORMATION ON COUNCIL'S WEBSITE

The Chair requested that a review be conducted on the information provided on Council's website regarding the Audit and Risk Committee to ensure it is relevant, accurate and up to date. Head of Strategy to report back at next meeting.

Recommendation:
The information be received and noted.

ITEM 9 NEXT MEETING DATE:

Date: Tuesday 23 August 2011
Time: 3.30 pm
Venue: The Councillors' Room, Manly Council Chambers

All to note

Meeting closed at 10.50am

Manly Council
Audit and Risk Committee Charter

1. Objective

The objective of the Audit and Risk Committee (Committee) is to provide independent assurance and assistance to Manly Council (Council) on risk management, control, governance, and external accountability responsibilities.

2. Authority

The Council authorises the Committee, within the scope of its role and responsibilities, to:

- Obtain any information it needs from any employee or external party (subject to their legal obligations to protect information).
- Discuss any matters with the external auditor or other external parties (subject to confidentiality considerations).
- Request the attendance of any employee or councillor at Committee meetings.
- Obtain external legal or other professional advice considered necessary to meet its responsibilities.

3. Composition and Tenure

The Committee will consist of:

<u>3.1 Members (voting)</u>

- Councillors (3);
- Independent external member (not a member of the Council); and
- Independent external member (an independent to be the chairperson).

<u>3.2 Attendee (non-voting)</u>

- General Manager;
- Internal Auditor; and
- Chief Financial Officer.

<u>3.3 Invitees (non-voting) for specific Agenda items</u>

- Representatives of the external auditor.
- Other officers may attend by invitation as requested by the Committee or General Manager.

All Councillors (other than Committee Members) are welcome to attend meetings as observers.

The independent external members will be appointed for the term of Council, after which they will be eligible for extension or re-appointment following a formal review of their performance.

The members of the Committee, taken collectively, will have a broad range of skills and experience relevant to the operations of Council. At least one member of the Committee shall have accounting or related financial management experience, with understanding of accounting and auditing standards in a public sector environment.

4. Role and Responsibilities

The Committee has no executive powers, except those expressly provided by the Council.

In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council rests with the Council and the General Manager as defined by the Local Government Act.

The responsibilities of the Committee may be revised or expanded by the Council from time to time. The Committee's responsibilities are:

4.1 Risk Management

- Review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of business and financial risks, including fraud;
- Review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings;
- Review the impact of the risk management framework on its control environment and insurance arrangements; and
- Review whether a sound and effective approach has been followed in establishing business continuity planning arrangements, including whether plans have been tested periodically.

4.2 Control Framework

- Review whether management has adequate internal controls in place, including over external parties such as contractors and advisors;
- Review whether management has in place relevant policies and procedures, and these are periodically reviewed and updated;
- Progressively review whether appropriate processes are in place to assess whether policies and procedures are complied with;
- Review whether appropriate policies and procedures are in place for the management and exercise of delegations; and
- Review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour.

4.3 External Accountability

- Satisfy itself the annual financial reports comply with applicable Australian Accounting Standards and supported by appropriate management sign-off on the statements and the adequacy of internal controls;
- Review the external audit opinion, including whether appropriate action has been taken in response to audit recommendations and adjustments;
- To consider contentious financial reporting matters in conjunction with Council's management and external auditors;
- Review the processes in place designed to ensure financial information included in the annual report is consistent with the signed financial statements;
- Satisfy itself there are appropriate mechanisms in place to review and implement, where appropriate, relevant State Government reports and recommendations;
- Satisfy itself there is a performance management framework linked to organisational objectives and outcomes.

4.4 Legislative Compliance

- Determine whether management has appropriately considered legal and compliance risks as part of risk assessment and management arrangements.
- Review the effectiveness of the system for monitoring compliance with relevant laws, regulations and associated government policies.

4.5 Internal Audit

- Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit.
- Review the internal audit coverage and Internal Audit Plan, ensure the plan has considered the Risk Management Plan, and approve the plan.
- Consider the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved Internal Audit Plan.
- Review all audit reports and consider significant issues identified in audit reports and action taken on issues raised, including identification and dissemination of better practices.
- Monitor the implementation of internal audit recommendations by management.
- Periodically review the Internal Audit Charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place.
- Periodically review the performance of Internal Audit.

4.6 External Audit

- Act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit.
- Provide input and feedback on the financial statement and performance audit coverage proposed by external audit, and provide feedback on the external audit services provided.
- Review all external plans and reports in respect of planned or completed external audits, and monitor the implementation of audit recommendations by management.
- Consider significant issues raised in relevant external audit reports and better practice guides, and ensure appropriate action is taken.

4.7 Responsibilities of Members

- Members of the Committee are expected to:
- Understand the relevant legislative and regulatory requirements appropriate to Council.
- Contribute the time needed to study and understand the papers provided.
- Apply good analytical skills, objectivity and good judgment.
- Express opinions frankly, ask questions that go to the fundamental core of issues, and pursue independent lines of enquiry.

5. Reporting

At the first Committee meeting after 30 June each year, Internal Audit will provide a performance report of:

- The performance of Internal Audit for the financial year as measured against agreed key performance indicators.
- The approved Internal Audit Plan of work for the previous financial year showing the current status of each audit.

The Committee may, at any time, consider any other matter it deems of sufficient importance to do so. In addition, at any time an individual Committee member may request a meeting with the Chair of the Committee.

The Committee will report regularly, and at least annually, to the governing body of council on the management of risk and internal controls.

6. Administrative Arrangements

6.1 Meetings

The Committee will meet at least four times per year, with one of these meetings to include review and endorsement of the annual audited financial reports and external audit opinion. The Committee may meet annually with the Internal Auditor in the absence of other staff.

The need for any additional meetings will be decided by the Chair of the Committee, though other Committee members may make requests to the Chair for additional meetings.

A forward meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The forward meeting plan will cover all Committee responsibilities as detailed in this Audit Committee Charter.

6.2 Attendance at Meetings and Quorums

A quorum will consist of a majority of Committee members, including at least one independent member. Meetings can be held in person, by telephone or by video conference.

The Head of Internal Audit will be invited to attend each meeting unless requested not to do so by the Chair of the Committee. The Committee may also request the Chief Finance Officer or any other employees to participate for certain agenda items, as well as the external auditor.

6.3 Secretariat

The Committee has appointed the Head of Internal Audit to provide secretariat support to the Committee. The Secretariat will ensure that the agenda for each meeting and supporting papers are circulated, at least one week before the meeting, and ensure minutes of the meetings are prepared and maintained. Minutes of the meeting will record all voting details for each item resolved by the Committee.

Minutes shall be approved by the Chair and circulated to each member within three weeks of the meeting being held. Minutes of the meeting will be published by Council subject to any confidentiality requirements relating to particular items in accordance with the *Local Government Act, 1993*.

6.4 Conflicts of Interest

Councillors, council staff and members of council committees must comply with the applicable provisions of Council's Code of Conduct in carrying out of the functions as council officials. It is the personal responsibility of council officials to comply with the standards in the Code of Conduct and regularly review their personal circumstances with this in mind.

Committee members must declare any conflicts of interest at the start of each meeting or before discussion of a relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

Where members or invitees at Committee meetings are deemed to have a real or perceived conflict of interest, it may be appropriate they be excused from Committee deliberations on the issue where the conflict of interest may exist. The final arbiter of such a decision is the Chair of the Committee.

6.5 Induction

New members will receive relevant information and briefings on their appointment to assist them to meet their Committee responsibilities.

6.6 Assessment Arrangements

The Chair of the Committee will initiate a review of the performance of the Committee at least once every two years. The review will be conducted on a self-assessment basis (unless otherwise determined by the Chair), with appropriate input from management and any other relevant stakeholders, as determined by the Chair.

6.7 Review of Audit Committee Charter

At least once every two years the Audit Committee will review this Audit Committee Charter.

The Audit Committee will approve any changes to this Audit Committee Charter.

7. RELATED DOCUMENTS

Local Government Act 1993

Local Government (General) Regulation 1995

Manly Council Code of Conduct for Community Members on Special Purpose Committees and Working Groups

Internal Audit Charter

North Shore Councils Internal Audit Operating Protocols

Approved:	Audit Committee Meeting	Date: 31st August 2010
	Planning & Strategy Committee	Date: 7th February 2011
	Audit and Risk Committee Meeting	Date: 31st May 2011