MINUTES OF MEETING

INTERNAL AUDIT AND RISK COMMITTEE

HELD TUESDAY 31 AUGUST 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 31st August 2010, to consider the matters referred to it and now provides the following advice to Council.

OPEN	The meeting commenced at 4.40pm.	
ITEM 1	**APOLOGIES AND LEAVE OF ABSENCE** *Apologies were received from the following:* Cllr Mark Norek and Henry Wong, General Manager.	**ACTION** **For notation**
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 28 April 2010 were confirmed. It was resolved at Council's Planning and Strategy meeting held on 7 June 2010 that the minutes of the Committee held on 28 April 2010, be adopted. **Recommendation:**	

The Committee noted that it was resolved at Council's Planning and Strategy meeting held on 7 June 2010 that the minutes of the Internal Audit Committee held on 28 April 2010, be adopted. The Minutes of the Committee meeting held 28 April 2010 were confirmed. **For notation**

ITEM 4 **REPORT – ADOPTION OF THE MANLY COUNCIL AUDIT CHARTER (as amended) AND MANLY COUNCIL AUDIT COMMITTEE CHARTER (as amended)**

The following points were minuted on the discussion on this item:

- Charter is based on the Division of Local Government Audit Guidelines.
- There has subsequently been a review but the Internal Auditor, Mr Quirk recommended to the committee they adopt these guidelines pending any new guidelines being published by the Division of Local Government.
- Supporting the 'Guidelines' are the 'Operating Protocols'. It would be desirable to look at how these could be merged together into one document with different parts in the future.
- The Chair was keen that the group be renamed Audit and Risk Management Committee. This heading would be consistent with the guidelines as the Internal Audit program is about identifying areas of risk in Councils processes and administration and looking at how systems can be improved accordingly. It is not in any way meant to take on the operational management role of Councils Risk Manager.
- The Committee indicated it was important that the Internal Auditor receive access to additional resources for independent investigations should these be required by Council at any time going forward. The Chair advised such matters would need to be referred to and determined via resolution of Council.
- Reporting for the Internal Auditor was queried and clarified. Day to Day matters and administrative support are provided by the Staff in Charge of General Managers Unit, functionally the Auditor reports his progress to this Council Committee and under the NSW Local Government Act overall The Internal Auditor reports to the Committee.

Recommendation:

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

i. The report is received and noted;
ii. The Independent Chairperson and the Committee recommend to Manly Council the Audit Charter, and the Manly Council Audit and Risk Committee Charter, be adopted with the few minor amendments underlined and highlighted (see attached).

Charters to be attached

ITEM 5 **REPORT – UPDATE ON IMPLEMENTATION OF INTERNAL AUDIT PLAN**

The Internal Auditor Michael Quirk report's was received and noted by the committee. Outside the written material some key points were:

- An assistant Internal Auditor position was currently being recruited.
- The Audit on Tendering Processes has commenced and will be reported to the next Committee meeting. **ACTION**

- The Audit on Cash Handling will commence in September and will be reported to the next Committee meeting (if possible).
- The Internal Auditor agreed that in the event that any major issues were identified with any audit undertaken that the Independent Chair of the Committee would be briefed.
- Questionnaires would be used in the Cash Handling Audit initially to be followed up by on site audit inspections at Council's key cash handling points.
- The Term cash handling in layman's terms refers to "money handling".
- The Internal Auditor will keep an issues log going forward to highlight various matters raised between meetings.

The Committee was keen that procurement matters be looked at in the future as separate to the tendering audit.

Recommendation:
That the Committee recommends to Council that the Internal Auditors Update Report on Implementation of the Internal Audit Plan report be received and noted and the program of audit be noted as attached.

Internal Audit Plan be attached to the Minutes

ITEM 6 General Business

- Cr Burns highlighted that he had a particular matter that he wished to possibly refer to the Committee. The Chair indicated his availability and willingness to discuss the appropriateness of matters to be placed before the Committee. He also highlighted that operational matters were best referred to the General Manger in the first instance.
- Cr Griffin thanked the Internal Auditor Michael Quirk for his work and indicated that she (and she was sure the rest of the Committee) looked forward to receiving his first internal audit reports. These sentiments were reiterated by the Chair and those present.

ITEM 10 NEXT MEETING DATE:
Date: Tuesday 9th November 2010
Time: 4.00pm
Venue: The Cove Meeting Room, Manly Council Chambers Building

Meeting closed at 6.10pm

Manly Council

Audit Charter

The mission of internal auditing is to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit at Manly Council (Council) is managed by the Internal Auditor who is the designated Head of Internal Audit within the organisation. The Head of Internal Audit is the top position within an organisation for internal audit activities, as defined in The International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors.

1. Introduction

This Internal Audit Charter is a formal statement of purpose, authority and responsibility for an internal auditing function within Council.

- It establishes Internal Audit within Council and recognises the importance of such an independent and objective service to the organisation.
- It outlines the legal and operational framework under which Internal Audit will operate.
- It authorises the Internal Auditor to promote and direct a broad range of internal audits across Council and, where permitted, external bodies.

2. Role and Authority

The Head of Internal Audit is authorised to direct a comprehensive program of internal audit work in the form of reviews, previews, consultancy advice, evaluations, appraisals, assessments and investigations of functions, processes, controls and governance frameworks in the context of the achievement of business objectives.

For this purpose, all members of Internal Audit are authorised to have full, free and unrestricted access to all functions, property, personnel, records, information, accounts, files, monies and other documentation, as necessary for the conduct of their work.

3. Objectivity, Independence and Organisational Status

Objectivity requires an unbiased mental attitude. As such, all Internal Audit staff shall perform internal audit engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Further, it requires Internal Audit staff not to subordinate their judgment on internal audit matters to that of others.

To facilitate this approach, Internal Audit shall have independent status within Council, and for this purpose shall be responsible directly through the Head of Internal Audit to the ~~Audit Committee~~Audit and Risk Committee and administratively to the General Manager. Internal Audit shall be independent of the activities reviewed, and therefore shall not undertake any operating responsibilities outside internal audit work. Neither shall Internal Audit staff have any executive or managerial powers, authorities, functions or duties except those relating to the management of Internal Audit. Internal Audit staff and contractors shall report to the Internal Auditor any situations where they feel their objectivity may be impaired. Similarly, the Head of Internal Audit should report any such situations to the ~~Audit Committee~~Audit and Risk Committee.

The work of Internal Audit does not relieve the staff of Council from their accountability to discharge their responsibilities. All Council staff are responsible for risk management and the operation and enhancement of internal control. This includes responsibility for implementing remedial action endorsed by management following an internal audit.

Internal Audit shall not be responsible for operational activities on a daily basis, or in the detailed development or implementation of new or changed systems, or for internal checking processes.

4. Scope of Work

The scope of services provided by Internal Audit shall encompass:

- The examination and evaluation of the adequacy and effectiveness of systems of internal control, risk management, governance, and the status of ethical behaviour.
- Ascertaining conformity with the goals and objectives of Council.
- Assessment of the economic and efficient use of resources.
- The examination of compliance with policies, procedures, plans and legislation.
- Assessment of the reliability and integrity of information.
- Assessment of the safeguarding of assets.
- Any special investigations as directed by the ~~Audit Committee~~Audit and Risk Committee.
- All activities of Council, whether financial or non-financial, manual or computerised.

5. The scope of work may include

- **Assurance services –** objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organisation. Examples may include financial, performance, operational, compliance, system security, and due diligence engagements.
- **Consulting services** – advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organisation's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

6. Internal Audit Methodology

Internal Audit shall use the most appropriate methodology for each internal audit engagement, depending on the nature of the activity and the pre-determined parameters for the engagement. Generally, internal audits will include:

- Planning.
- Reviewing and assessing risks in the context of the audit objectives.
- Examination and evaluation of information.
- Communicating results.
- Following up on implementation of audit recommendations.

7. Operating Principles

Internal Audit shall conform with:

- The Standards and Code of Ethics issued by the Institute of Internal Auditors.
- Where relevant, the Statement on Information Systems Auditing Standards issued by the Information Systems and Control Association.
- Relevant auditing standards issued by the Auditing and Assurance Standards Board.

8. Internal Audit shall:

- Possess the knowledge, skills, and technical proficiency essential to the performance of internal audits.
- Be skilled in dealing with people and in communicating audit issues effectively.
- Maintain their technical competence through a program of continuing education.
- Exercise due professional care in performing internal audit engagements.

9. Internal Audit staff shall:

- Conduct themselves in a professional manner.
- Conduct their activities in a manner consistent with the concepts expressed in the Standards and the Code of Ethics.

10. Reporting Arrangements

The Head of Internal Audit shall at all times report to the ~~Audit Committee~~Audit and Risk Committee. At each ~~Audit Committee~~Audit and Risk Committee meeting the Head of Internal Audit shall submit a report summarising all audit activities undertaken during the period, indicating:

- Internal audit engagements completed or in progress.
- Outcomes of each internal audit engagement undertaken.
- Remedial action taken or in progress.

On completion of each internal audit engagement, Internal Audit shall issue a report to its audit customers detailing the objective and scope of the audit, and resulting issues based on the outcome of the audit. Internal Audit shall seek from the responsible senior executive an agreed and endorsed action plan outlining remedial action to be taken, along with an implementation timetable and person responsible. Responsible officers shall have a maximum of ten working days to provide written management responses and action plans in response to issues and recommendations contained in internal audit reports.

The Head of Internal Audit shall make available all internal audit reports to the ~~Audit Committee~~Audit and Risk Committee. However, the work of Internal Audit is solely for the benefit of Council and is not to be relied on or provided to any other person or organisation, except where this is formally authorised by the ~~Audit Committee~~Audit and Risk Committee or the Head of Internal Audit.

In addition to the normal process of reporting on work undertaken by Internal Audit, the Head of Internal Audit shall draw to the attention of the ~~Audit Committee~~Audit and Risk Committee all matters that, in the Head of Internal Audit's opinion, warrant reporting in this manner.

11. Planning Requirements

Internal Audit uses a risk-based rolling program of internal audits to establish an annual Internal Audit Plan to reflect a program of audits over a 12 month period. This approach is designed to be flexible, dynamic and more timely in order to meet the changing needs and priorities of Council.

The Head of Internal Audit shall prepare an annual Internal Audit Plan for review and approval by the ~~Audit Committee~~Audit and Risk Committee, showing the proposed areas for audit. The annual Internal Audit Plan shall be based on an assessment of the goals, objectives and business risks of Council, and shall also take into consideration any special requirements of the ~~Audit Committee~~Audit and Risk Committee and senior executives.

The Head of Internal Audit has discretionary authority to adjust the Internal Audit Plan as a result of receiving special requests from management to conduct reviews that are not on the plan, with these to be approved at the next meeting of the ~~Audit Committee~~Audit and Risk Committee.

12. Quality Assurance & Improvement Program

The Head of Internal Audit shall oversee the development and implementation of a quality assurance and improvement program for Internal Audit, to provide assurance that internal audit work conforms to the Standards and is focused on continuous improvement.

13. Co-ordination with External Audit

The Head of Internal Audit shall periodically consult with the external auditor, to discuss matters of mutual interest, to co-ordinate audit activity, and to reduce duplication of audit effort.

14. Review of the Internal Audit Charter

The Head of Internal Audit shall periodically review the Internal Audit Charter to ensure it remains up-to-date and reflects the current scope of internal audit work.

15. Evaluation of Internal Audit

The Head of Internal Audit shall develop performance measures (key performance indicators) for consideration and endorsement by the ~~Audit Committee~~Audit and Risk Committee, as a means for the performance of Internal Audit to be periodically evaluated.

Internal Audit shall also be subject to an independent quality review at least every five years. Such review shall be in line with the Standards of Professional Practice in Internal Audit and be commissioned by and report to the ~~Audit Committee~~Audit and Risk Committee.

16. Conflicts of Interest

Internal auditors are not to provide audit services for work for which they may previously have been responsible. Whilst the Standards provide guidance on this point and allow this to occur after 12 months, each instance should be carefully assessed.

When engaging internal audit contractors, the Head of Internal Audit shall take steps to identify, evaluate the significance, and manage any perceived or actual conflicts of interest that may impinge upon internal audit work.

Instances of perceived or actual conflicts of interest by the Head of Internal Audit or Internal Audit staff and contractors are to be immediately reported to the ~~Audit Committee~~Audit and Risk Committee by the Head of Internal Audit.

Any changes to this Internal Audit Charter will be approved by the ~~Audit Committee~~Audit and Risk Committee.

Approved:	~~Audit Committee~~Audit and Risk Committee Meeting	Date:

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:

3.1 Members (voting)

- Mayor
- Councillor
- Independent external member (not a member of the Council).
- Independent external member (an independent to be the chairperson).

3.2 Attendee (non-voting)

- General Manager
- Internal Auditor
- Chief Financial Officer

3.3 Invitees (non-voting) for specific Agenda items

- 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.

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

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: