NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that of a meeting of the **AUDIT & RISK COMMITTEE** will be held:

DATE: **Wednesday 6 February 2013**

TIME: **From 9.15am to 11.00am**

PLACE: **The Cove Room, Manly Town Hall**

COMMITTEE MEMBERS:

Councillors	
Mayor Jean Hay AM, (ex officio)	Manly Council
Cllr Hugh Burns	Manly Council
Cllr Candy Bingham	Manly Council
Cllr James Griffin	Manly Council
Community Representatives	
John Gordon	Community Member - Chairperson
Brian Hrnjak	Community Member

COUNCIL STAFF AND INVITED ATTENDEES:

Anthony Hewton	Executive Manager, Corporate Support Services
Michael Quirk	Head of Internal Audit, North Shore Councils
Lynne Jess	Minute taker

All other Councillors are free to attend as observers and are invited to do so and to engage in discussions, but not in voting, on any matter before the Committee.

Anthony Hewton
Executive Manager
Corporate Support Services

Date: 1 February 2013

AGENDA

AUDIT & RISK COMMITTEE

MEETING TO BE HELD ON WEDNESDAY 6 FEBRUARY, 2013 AT 9.15AM

THE COUNCILLORS' ROOM, MANLY TOWN HALL,
1 Belgrave Street, Manly

ITEM 1	**Apologies and leave of absence**	
ITEM 2	**Declarations of Interest –**	**Pecuniary** **Non- Pecuniary**
ITEM 3	**Welcome from Chairperson Mr John Gordon**	
ITEM 4	**Charter & Meeting Schedule for 2013**	
ITEM 5	**Overall Internal Audit Program**	
ITEM 6	**Status of Audit and Risk Committee Annual Agenda**	
ITEM 7	**Audit of Capital Projects- Internal Auditor**	
ITEM 8	**Audit of Asset Acquisitions and Disposals- Internal Auditor**	
ITEM 9	**Audit of Competitive Neutrality- Internal Auditor**	
ITEM 10	**Audit of Fraud and Corruption Prevention- Internal Auditor**	
ITEM 11	**Implementation of Audit Recommendations**	
	Meeting Close	

TO:	**Audit & Risk Advisory Committee**
MEETING DATE:	6 February 2013
AUTHOR:	Secretariat
SUBJECT:	**Item 4 –Charter and Proposed Committee Meeting Dates for 2013**

1. INTRODUCTION

Council has endorsed the Charter for the Audit and Risk Advisory Committee as attached and previously presented.

Consideration of the proposed meeting dates for the Audit & Risk Advisory Committee for 2013 are also presented.

2. INFORMATION

The table below sets out the proposed meeting dates for the Audit & Risk Advisory Committee meetings for 2013.

The meetings have been scheduled quarterly for the 3rd Wednesday of the month.

Meetings to commence at 9.15am at Town Hall, 1 Belgrave Street, Manly and will run for a maximum of 2 hours.

Jan 2013	Feb 2013	Mar 2013	April 2013	May 2013	June 2013	July 2013	Aug 2013	Sept 2013	Oct 2013	Nov 2013	Dec 2013
	6				5				2		4

Note: also one meeting to review annual statements.

3. RECOMMENDATION:

1. That the Charter for the Audit and Risk Advisory Committee are received and noted by the committee.

2. That the proposed dates for 2013 as outlined be approved.

Secretariat
Corporate Services Division
Date: 6 February 2013

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>

- Mayor (ex officio)
- 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

<u>6.1 Meetings</u>

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.

<u>6.2 Attendance at Meetings and Quorums</u>

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.

<u>6.3 Secretariat</u>

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*.

<u>6.4 Conflicts of Interest</u>

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
	Ordinary Meeting	Date: 18th July 2011

TO:	Internal Audit & Risk Committee
MEETING DATE:	6 February 2013
AUTHOR:	Michael Quirk, Head of Internal Audit North Shore Councils (including Manly Council)
SUBJECT:	**ITEM 5 - Internal Auditor's Report on the Internal Audit Program**

1. INTRODUCTION

The draft Internal Audit Program for 2012/13 was approved at the meeting of the Audit and Risk Committee on 5 June 2012. This report provides information on the status of work on the approved 2012/13 Program.

INFORMATION

Internal Audit Planning

Manly has access to an Internal Audit staff resource equivalent to approximately 8.7 staff-days per month (0.44 FTE).

Status of Audits

Fieldwork has concluded on the *Audit of ICT Service Continuity* with the draft report currently subject to review. Fieldwork for the *Audit of Investments* is due to commence within two weeks.

Data collection and analysis is well advanced in establishing *Automated Audits of Payroll and Accounts Payable Data*. The results of the first series of analysis will be reported to the next meeting of the Audit Committee

The overall 2012/13 program (see Calendar attached) is slightly behind schedule but is likely to be delivered on target by year-end.

Completed Audits in the Current Period

The *Audit of Asset Acquisitions and Disposals,* the *Audit of Fraud & Corruption Prevention,* the *Audit of Capital Projects* and the *Audit of Competitive Neutrality* were finalised in the current period and are subject to a separate reports at the meeting.

2. RECOMMENDATION:

The Committee recommends to Council that:

1) The Internal Auditor's Report on the Internal Audit Program be received and noted.

ATTACHMENTS

Internal Audit Calendar 2013 Manly

Michael Quirk

Head of Internal Audit North Shore Councils

February 2013

INTERNAL AUDIT INITIAL CALENDAR 2012/13
COUNCIL: MANLY

MONTH	DATE	ACTIVITY	ID
July '12	Completed	Fraud & Corruption Prevention	AUD04/11
	Completed	Capital Projects	AUD05/11
August '12	In Progress	Post Implementation Reviews	AUD14/12
	Cancelled	*Audit & Risk Committee Meeting*	
September '12	In Progress	ICT Service Continuity	AUD04/12
October '12			
November '12	Deferred	*Audit & Risk Committee Meeting*	
December '12	In Progress	Automated Audits - Payroll	AUD12/12
	In Progress	Automated Audits – Accounts Payable	AUD13/12
January '13	24/01/13	Investments	AUD02/12
	6/02/13	*Audit & Risk Committee Meeting*	CONFIRMED
February '13	19/02/13	Rates	AUD03/12
March '13	04/03/13	Contract Management	AUD01/12
April '13	01/04/13	Compliance & Enforcement Policy	AUD05/12
	22/04/12	Recruitment & Selection Practices	AUD06/12
	24/04/13	*Audit & Risk Committee Meeting*	**PROPOSED**
May '13			
June '13	12/06/13	*Audit & Risk Committee Meeting*	**PROPOSED**

NOTES:
Dates shown are estimated commencement dates and may be varied with consultation
Duration of audits is dependent upon the scope of the Council activity and the audit scope. Indicative durations are included in the Audit Plan approved by General Managers on 3 May 2012.

TO:	Internal Audit & Risk Committee
MEETING DATE:	6 February 2013
AUTHOR:	Michael Quirk, Head of Internal Audit North Shore Councils (including Manly Council)
SUBJECT:	**ITEM 6 - Status of Audit & Risk Committee Annual Agenda**

1. INTRODUCTION

At its meeting of 23 August 2011 the Audit and Risk Committee adopted an Annual Audit and Risk Committee Agenda (see copy attached). With the impact of the Local Government Elections in 2012 and deferral of the last two meetings of 2012, this report provides an updated position in relation to current scheduled items.

INFORMATION

Financial Reporting

A number of Annual Agenda items schedule for the third Audit and Risk Committee meeting of the year (Q3) relate to Council's financial reporting. Due to the impacts of the Local Government Elections, this meeting was cancelled and the related items should be addressed in 2013.

Risk Management

The last meeting of the Audit and Risk Committee held on 5 June 2012 received a report and briefing from the Risk Manager on Council's Enterprise-wide risk management profile. A number of Annual Agenda items (Q4) relate to Council's Risk Management efforts.

Internal Audit Charter and Operating Protocols

An Annual Agenda item schedule for the last meeting of the year (Q4) relates to reviewing the Internal Audit Charter and Operating Protocols. That review has been completed and has found that both the Audit Charter and the Protocols remain valid and comprehensive for the purposes of Internal Audit.

Compliance Program

The last meeting of the Audit and Risk Committee held on 5 June 2012 received a report and briefing from the Manager Governance on Council's Compliance and Regulatory Management programs. A number of Annual Agenda items (Q4) relate to Council's Compliance efforts.

Whistleblower arrangements

An Annual Agenda item schedule for the first meeting of the year (Q1) relates to reviewing whistleblower arrangements and reports. An audit of Fraud and Corruption Prevention is on the current agenda which covers consideration of Council's whistleblower arrangements.

Reporting Responsibilities

In addition to regular Annual Agenda items, the current meeting of the Audit & Risk Committee should "Monitor open communications between the internal and external auditors and the Council occurs", and provide opportunity for the internal auditor to meet with the Committee without management.

2. RECOMMENDATION:

The Committee recommends to Council that:

1) The Internal Auditor's Report on the Audit & Risk Committee Annual Agenda be received and noted.

ATTACHMENTS

Audit & Risk Committee Agenda

Michael Quirk

Head of Internal Audit North Shore Councils

February 2013

MEETINGS SCHEDULED FOR:	Q1	Q2	Q3	Q4
Financial Report				
Review significant accounting and reporting issues (Interim Audit Report)		✓		
Review the annual financial statements			✓	
Review the results of the audit (Auditors Management Letter)			✓	
Review communication required under Australian Auditing Standards ASA260			✓	
Internal Control				
Consider the effectiveness of the Council's internal control system			✓	
Review the internal control over financial reporting			✓	
Risk Management				
Monitor the systems and processes for risk management				✓
Review the Council's risk profile				✓
Material business risks consider adequacy of mitigation actions				✓
Monitor effectiveness of business continuity planning				✓
Review any instance of fraud or possible illegal acts		✓		
Internal Audit				
Presentation and review of Internal Audit's Annual Performance Report			✓	
Review Internal Audit Charter and Operating Protocols				✓
Review and recommend the annual audit plan		✓		
Review internal audit plan and ensure it is linked to the Council's risk profile		✓		
Monitor satisfaction with internal audit service		✓		
Monitor processes and practices to ensure that independence of internal audit function		✓		
Provide an opportunity for the audit committee to meet with internal audit without management	✓			
External Audit				
Note the external auditors' proposed audit scope and approach		✓		
Consider external auditors' view on the control environment and management letters		✓		
Resolve any disagreement between management and the external auditors in financial reporting			✓	
Provide an opportunity for the audit committee to meet with external auditor without management				✓
Compliance				
Obtain regular updates on compliance matters	✓	✓	✓	✓
Review the systems and processes for monitoring compliance with legislation and regulations				✓
Be informed on how management monitors the effectiveness of its compliance and ethics program	✓			
Keep informed of the findings of any examinations by regulatory agencies	✓	✓	✓	✓
Review whistleblower arrangements and reports	✓			

Reporting Responsibilities				
Report regularly to the Council	✓	✓	✓	✓
Report annually to Council on the performance of the Audit & Risk Committee activities by workshop				✓
Monitor that open communication between the internal auditor, the external auditors, and the Council occurs	✓			✓
Consider the findings and recommendations of relevant performance Audits	✓	✓	✓	✓
Assessment of Financial Information				
Periodically compare actual outcomes, achievement of milestones and other KPI's as compared with the Council Plan, Annual Report and Budget - strategic indicators for monitoring the achievement of the strategic objectives		✓		
Review attestations required			✓	✓
Review and discuss any reports concerning evidence of material violation of breaches of fiduciary duty	✓	✓	✓	✓
General				
Establish number of meetings for forthcoming year		✓		
Effectiveness of Secretariat support performance		✓		
Perform an assessment of the Committee's performance bi-annually			✓	
Review and assess the adequacy of the audit committee charter bi-annually			✓	
Confirm annually that all responsibilities outlined in the Audit Committee charter have been carried out.			✓	
Review Annual Audit Committee Agenda				

Adopted Audit & Risk Committee Meeting 23 August 2011

TO:	Internal Audit & Risk Committee
MEETING DATE:	6 February 2013
AUTHOR:	Michael Quirk, Head of Internal Audit North Shore Councils (including Manly Council)
SUBJECT:	**ITEM 7 - Internal Auditor's Report on Capital Projects**

1. INTRODUCTION

The Internal Auditor has, as part of the Audit Program confirmed by the participating North Shore Councils and this Committee, conducted an audit of Capital Projects at Manly Council.

2. INFORMATION

The Internal Audit Program for 2011/2012 was approved by this Committee on 31 May 2011 and required an audit of Council's Capital Projects program to be conducted. The audit has been completed and the Audit Report has being reviewed by Council Management. A copy of the Executive Summary of the report is attached, and a copy of the full report will be available at the meeting.

The Report and its findings will be presented to the Committee by the Internal Auditor, Michael Quirk.

3. RECOMMENDATION:

The Committee recommends to Council that:

1) The Internal Auditor's Report on Capital Projects at Manly Council be received and noted; and

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

ATTACHMENTS

Manly Audit Executive Summary Capital Projects

Michael Quirk

Head of Internal Audit North Shore Councils

February 2013

Head of Internal Audit

Internal Audit Executive Summary Report

Subject:	**Capital Projects -**Report Approved

Objective and Scope	The primary objectives of the audit were to provide an assurance that adequate probity and related controls are in place to ensure projects are planned, managed and delivered in order to achieve Council's planned outcomes. To achieve the above stated objective the scope of our review included the examination of the framework for delivery of capital projects, and a sample of recent projects to assess the adequacy of controls in the following areas: • Planning and budgeting – satisfies stated corporate objective, funding available, risk management plan, approval to proceed; • Specifications – Project scoping, Detailed specification, Verification of specification and quantities, Approval to proceed; • Probity in acquisition – Tendering specification and processes, approval to proceed; • Contract initiation – Consistent contract executed, Delegations, Insurances & certificates, Risk Management, Capacity verification, Timetable of works, Treatment of variances, Approvals to proceed; • Contract implementation – Supervision/management, verification of quantities, variations, reporting, progress payments; and • Contract conclusion – Verification of completion, validation of quantities, management of defects, approval to finalise/hand-over, reporting of outcomes and total costs, updating of assets management system.

Major Findings	Our review revealed that Council has good documentation of project specifications and controls expected from an organisation of similar size and operations. There is no formally documented capital project risk register developed for each project to be undertaken. However, our review revealed that there were number of instances were project risks are being managed informally which appears to be reasonable for the size of the Council.

Summary of Recommendations	The review provided 1 detailed recommendation for improvement which was rated as Minor Risk. The recommendation calls for the documentation of project risk assessments, together with risk mitigation strategies.

Overall Opinion and Rating	In conclusion, this report indicates an **Effective Control Environment** (A small number of control risk issues mainly minor in nature / opportunities for improvement identified).

4

	Control Environment Rating

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

TO:	Internal Audit & Risk Committee
MEETING DATE:	6 February 2013
AUTHOR:	Michael Quirk, Head of Internal Audit North Shore Councils (including Manly Council)
SUBJECT:	**ITEM 8 - Internal Auditor's Report on Asset Acquisitions and Disposals**

1. INTRODUCTION

The Internal Auditor has, as part of the Audit Program confirmed by the participating North Shore Councils and this Committee, conducted an audit of the Asset Acquisitions and Disposals at Manly Council.

2. INFORMATION

The Internal Audit Program for 2011/2012 was approved by this Committee on 31 May 2011 and required an audit of Council's Asset Acquisition and Disposal controls to be conducted. The audit has been completed and the Audit Report has being reviewed by Council Management. A copy of the Executive Summary of the report is attached, and a copy of the full report will be available at the meeting.

The Report and its findings will be presented to the Committee by the Internal Auditor, Michael Quirk.

3. RECOMMENDATION:

The Committee recommends to Council that:

1) The Internal Auditor's Report on Asset Acquisitions and Disposals at Manly Council be received and noted; and

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

ATTACHMENTS

Manly Audit Executive Summary Asset Acquisitions and Disposals

Michael Quirk

Head of Internal Audit North Shore Councils

February 2013

Head of Internal Audit

Internal Audit Executive Summary Report

Subject:	**Asset Acquisitions and Disposals -**Report Approved

Objective and Scope	The primary objectives of the audit were to provide a high level assurance that: • Asset acquisition, disposal and life-cycle management decisions are integrated into Council's asset management strategy and Policy; • Asset planning decisions are based on an evaluation of alternatives, which assesses risks and benefits, and applies Council's core procurement principle of value for money across the asset's life-cycle; • An effective control structure is established for asset acquisition and disposal; • Disposal decisions are based on analysis of the methods which achieve the best available net return; and • Assets are appropriately valued in the financial statements. To achieve the above stated objective the scope of our review included consideration of controls in: • Acquisition of tangible assets to ensure procurements are based on genuine business case / policy; • Procurement and disposal of assets are made under delegated authority and in accordance with policy; • The Whole of Life Cycle costing is considered and reported in the acquisition of assets; • Proceeds from the disposal of assets are appropriately receipted into Council's book on a timely manner; and • Valuation of Council assets is consistent with Council's policy and Australian Accounting Standards.

Major Findings	Council has an Asset Management Policy and Asset Management Strategy. Asset Management Plans are prepared for individual asset classes, providing detailed information on how to manage each asset class. These plans include asset condition and life cycle analysis. Our sample review of assets disposed between the years 2010 to 2011 revealed that proceeds from the sales were receipted by Council on a timely basis and the depreciations are appropriately reversed upon disposal of the particular assets. We were advised that the 2011/12 asset acquisition and disposal transactions were not updated in the asset register (asset's subsidiary ledger) at the date of our audit, but have subsequently been updated. Changes in asset details are not updated in the asset register immediately upon any changes occurring. We noted instances where depreciation was not calculated by the asset system for assets that are subject to depreciation charges. There were large numbers (more than one hundred items) of assets which

	have been fully depreciated with a value of $1.00 still maintained in the asset register. We were advised that the recording decision for items below the asset capitalisation threshold is left to the discretion of divisional management, or did not require the items to be recorded separately for the purpose of monitoring.

Summary of Recommendations	The review provided 10 detailed recommendations for improvement which were rated as either Moderate, or Minor Risk. A summary of the significant recommendations include: 1. Council review the depreciation charges for assets that have been fully depreciated, and identify assets that are obsolete or surplus for disposal. 2. Council conduct annual stocktakes and condition assessments of assets and provide for unique identification of all assets. 3. Council develop a policy and procedural framework for managing portable and attractive items.

Overall Opinion and Rating	In conclusion, the concerns identified in this report indicate that the **Control Environment Requires Improvement** (several issues of concern noted, 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 and Risk Committee.

TO:	Internal Audit & Risk Committee
MEETING DATE:	6 February 2013
AUTHOR:	Michael Quirk, Head of Internal Audit North Shore Councils (including Manly Council)
SUBJECT:	**ITEM 9 - Internal Auditor's Report on Competitive Neutrality**

1. INTRODUCTION

The Internal Auditor has, as part of the Audit Program confirmed by the participating North Shore Councils and this Committee, conducted an audit of Competitive Neutrality at Manly Council.

2. INFORMATION

The Head of Internal Audit informed the Audit and Risk Committee on 20 March 2012 of the intention to conduct an audit of Competitive Neutrality at Manly following an earlier request from the General Manager. The audit has been completed and the Audit Report has being reviewed by Council Management. A copy of the Executive Summary of the report is attached, and a copy of the full report will be available at the meeting.

The Report and its findings will be presented to the Committee by the Internal Auditor, Michael Quirk.

3. RECOMMENDATION:

The Committee recommends to Council that:

1) The Internal Auditor's Report on Competitive Neutrality at Manly Council be received and noted; and

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

ATTACHMENTS

Manly Audit Executive Summary Competitive Neutrality

Michael Quirk

Head of Internal Audit North Shore Councils

February 2013

Head of Internal Audit

Internal Audit Executive Summary Report

Subject:	**Competitive Neutrality -**Report Approved

Objective and Scope	The audit aimed to provide an assurance that Council's reporting transparently reflects the activities of classified business activities in accordance with the National Competition Policy and Guidelines. In order to achieve the above objective the audit examined those Council activities that have been classified as Category 1 or Category 2 business activities in accordance with the National Competition Policy. The audit included interviews with a number of staff and examined: • Framework and processes for pricing and costing of Council's business activities; • Accounting records regarding the business activities; • Framework for investigation and reporting of complaints relating to the business activities; • Complaints regarding the relevant business activities.

Major Findings	Our review showed that Council adopted the competitive neutrality principles arising from the National Competition Policy in the late 1990's, and has continued to report on its declared business activities in general compliance with the Policy. The review found that Council's work in complaints management and ongoing reporting has effectively addressed the requirements of the National Competition Policy. This review did not duplicate the work of Council's external auditors in examining the Special Purpose Financial Statements. The review found that the external auditors had provided an unqualified opinion of fair presentation of the reports for at least the last three years. The review found that Council's accounting systems and processes are capable of proper reporting of direct income and expenditure relating to Council's declared business activities. The review found that more work is required to ensure full attribution of relevant costs to Council's declared business activities, and that these should be reflected in the improved management reporting. The review found that the level of resultant subsidies to the declared business activities was explicit in the annual financial statements, but the subsidies are not explicitly budgeted.

Summary of Recommendations	The review provided 7 detailed recommendations for improvement which were rated as either Moderate, or Minor Risk. A summary of the significant recommendations include:

	1. Council consistently define the components of all Category 1 and Category 2 business activities for the purposes of budgeting and reporting. 2. Council consistently and completely attribute all relevant corporate costs to each of the declared businesses in its reporting. 3. Subsidies to declared business activities be specifically budgeted, and performance to budget reported.

Overall Opinion and Rating	In conclusion, the concerns identified in this report indicate that the **Control Environment Requires Improvement** (several issues of concern noted, 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 and Risk Committee.

TO: Internal Audit & Risk Committee

MEETING DATE: 6 February 2013

AUTHOR: Michael Quirk, Head of Internal Audit North Shore Councils (including Manly Council)

SUBJECT: **ITEM 10 - Internal Auditor's Report on Fraud and Corruption Prevention**

1. INTRODUCTION

The Internal Auditor has, as part of the Audit Program confirmed by the participating North Shore Councils and this Committee, conducted an audit of Fraud and Corruption Prevention at Manly Council.

2. INFORMATION

The Internal Audit Program for 2011/2012 was approved by this Committee on 31 May 2011 and required an audit of Council's Fraud and Corruption Prevention program to be conducted. The audit has been completed and the Audit Report has being reviewed by Council Management. A copy of the Executive Summary of the report is attached, and a copy of the full report will be available at the meeting.

The Report and its findings will be presented to the Committee by the Internal Auditor, Michael Quirk.

3. RECOMMENDATION:

The Committee recommends to Council that:

1) The Internal Auditor's Report on Fraud and Corruption Prevention at Manly Council be received and noted; and

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

ATTACHMENTS

Manly Audit Executive Summary Fraud and Corruption Prevention

Michael Quirk

Head of Internal Audit North Shore Councils

February 2013

Head of Internal Audit

Internal Audit Executive Summary Report

Subject:	**Fraud & Corruption Prevention -**Report Approved January 2013

Objective and Scope	The objectives of the review were to provide an assurance that: • Strategies and controls are in place to minimise the risk and incidence of fraud and corruption by Council staff; • Council's fraud and corruption prevention strategies and policies are based on a comprehensive and contemporary framework. To achieve the above stated objectives, the scope of our review included consideration of strategy, policy and controls in relation to: • Fraud and Corruption Prevention Policy • Responsibility Structures & Delegations • Fraud & Corruption Risk Assessments • Employee Awareness & Training • Customer & Community Awareness • Internal Notification systems & standards • Fraud & Corruption Detection systems • External Notification systems and standards • Investigation systems and standards • Conduct and Disciplinary systems and processes The above attributes are considered a necessary component of a contemporary approach to fraud and corruption prevention. In undertaking the review we interviewed staff and examined Council policy and strategy documents.

Major Findings	Fraud is defined in the Australian Standard '*Fraud and Corruption Control'* as "dishonest activity causing actual or potential financial loss to any person or entity including theft of moneys or other property by employees or persons external to the entity and whether or not deception is used at the time, immediately before or immediately following the activity". Corruption is defined in the ICAC Act sections 7, 8 and 9. Under s11 of the ICAC Act, the General Manager (as Principal Officer) has a statutory responsibility to report any matters that he suspects on reasonable grounds concerns or may concern corrupt conduct. Reference can also be made to the ICAC Corruption Prevention framework, Audit Office Fraud Control Plan and Australian Standard AS 8001-2003 (Fraud & Corruption Control). Manly Council has established policies which are designed to prevent Fraud and Corruption. These policies apply to the Mayor, Councillors, staff, committee

	members and contractors. However, some of the policies are still in draft and have not been approved by the Council (eg Fraud Prevention plan & Guidelines and Investigation guidelines). We note that the relevant policies and processes can be strengthened with more integration. There also needs to be a focus on providing staff and community with an awareness of the Council's Fraud policy.

Summary of Recommendations	The review provided 21 detailed recommendations for improvement covering a broad range of controls relating to contemporary fraud and corruption prevention. The above Major Findings identify areas for improvements for which recommendations have been provided. The recommendations have been considered by management.

Overall Opinion and Rating	In conclusion, the concerns identified in this report indicate that the **Control Environment Requires Improvement** (several issues of concern noted, 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 and Risk Committee.

TO: Audit and Risk Committee

MEETING DATE: 6 February 2013

AUTHOR: Anthony Hewton

SUBJECT: **Report 11 - Implementation of Audit Recommendations**

Note: The attachment to this report is still being collated and will be presented at the meeting by the Internal Auditor.

1. INTRODUCTION

See attached Internal Auditor's report on **Implementation of Audit Recommendations.**

2. RECOMMENDATION:

That:

1. The Committee receives and notes the Internal Auditor's report on **Implementation of Audit Recommendations.**

Anthony Hewton
Executive Manager
Committee

6 February 2013