AGENDA

AUDIT AND RISK COMMITTEE

MEETING TO BE HELD ON WEDNESDAY 6 NOVEMBER 2013 AT 2.30 PM
The Councillors' Room, Manly Town Hall

ITEM 1 **Apologies and leave of absence**

ITEM 2 **Declarations of Interest – Pecuniary**
Non- Pecuniary

ITEM 3 **Confirmation of minutes of previous meeting – 6 June 2013**

ITEM 4 **Staff Presentation on Strategic Assets Management**

ITEM 5 **Report – Annual Financial Statements**

ITEM 6 **Status of Internal Audit Program**

ITEM 7 **Implementation of Internal Audit Recommendations**

ITEM 8 **Proposed Internal Audit Program 2013-2014**

ITEM 9 **Review of Audit and Risk Committee Charter**

ITEM 10 **Report on Probity in Tender for External Audit Services**

ITEM 11 **Results of Automated Audit of Payroll Data**

ITEM 12 **Date of next meeting - TBA**

MINUTES OF MEETING

AUDIT & RISK ADVISORY COMMITTEE

HELD ON WEDNESDAY 6 JUNE 2013

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

PRESENT:

Councillors
Clr Hugh Burns
Clr Candy Bingham
Clr James Griffin
Other Representatives

John Gordon	Community Member - Chair
Brian Hrnjak	Community Member

Council Staff

Henry Wong	General Manager
Michael Quirk	Head of Internal Audit, North Shore Councils
Helen Lever	Manager, Administration
Jenny Nascimento	Chief Financial Officer
Lynne Jess	Minute Taker

Invited Guests
Nil

TO THE MAYOR AND COUNCILLORS OF THE COUNCIL

The **Audit and Risk Committee (the Committee)** met on 6th June 2013, to consider the matters referred to it and now provides the following advice to Council.

OPEN The meeting commenced at 9.20am

ITEM 1 APOLOGIES AND LEAVE OF ABSENCE **ACTION**
Nil

ITEM 2 DECLARATION OF INTEREST
There were no declarations of interest advised by those present. John Gordon advised he would send through a list of all committees he is currently involved with as transparency for the new Councillors.

ITEM 3A CONFIRMATION OF MINUTES
The Minutes of the Committee meeting held on 6 February 2013 were confirmed.

The Minutes of the Audit and Risk Committee held on 6 February

2013 were adopted at Council's meeting held on 4 March 2013. Resolution 30/13.

Recommendation:

i. The Committee resolved that the minutes of the Committee meeting held 6 February 2013 be confirmed.
ii. That the minutes of the previous meeting be reviewed at the current meeting.

ITEM 3B Welcome from the Chair Mr Gordon

The Chair welcomed the Committee members.

ITEM 3C BUSINESS ARISING

No matters were noted

Other discussion points of the Committee:

- Chairperson, John Gordon discussed the procedure for reappointing Committee members. Staff advised that community representatives were reappointed at the end of the last term of Council to carry into the current year and that it was intended to renew these appointments for the full term of this Council in accordance with the conditions stated in the Committee Charter. This would take place before the next meeting.

- Chairperson, John Gordon requested a presentation at the next meeting on Enterprise Risk Management which staff will arrange.

- Chairperson, John Gordon requested that a review of the relevant charters be presented to the next meeting, and that a short in-camera meeting with both internal and external auditors be included on the agenda in accordance with the Charter and Annual Agenda.

ITEM 4 Overall Internal Audit Program

The internal auditor spoke to his report entitled *"Internal Auditor's Report on the Internal Audit Program"* and advised on the progress of the activities.

He spoke to the following points in his report:

Internal Audit Resourcing

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

Internal Audit Planning

The Internal Audit Program for 2012/13 was approved on 5 June 2012. An updated form of the current Internal Audit Program is attached.

Initial planning has commenced on the 2013/2014 Internal Audit Program. An indicative long-term internal audit plan was discussed at the Audit and Risk Committee of 5 June 2012. A copy of the long-term plan will be available at the meeting. The following audit areas are currently being considered in the 2013/2014 draft Internal Audit

Program:

WHS System	**Workers Compensation Management**
Community Properties	**IT Systems Security**
Child Care Facilities	**IT Projects**

Internal Audit will reference Council's current risk profile and will be seeking input to the internal audit program from Council management prior to final submission to the next meeting of the Audit and Risk Committee.

Internal Audit Processes and Reports
Internal Audit have recently introduced minor changes to the format of issued reports aimed at improving efficiency in report management, and improved readability for audit clients. Further improvements to audit processes, including the use of cloud-based tools, are planned over the coming months to reflect a maturing of the internal audit function as part of Manly Council management. These improvements also aim to better position the internal audit function for external certification to international quality standards.

Status of Audits
Planning and fieldwork has commenced on the *Audit of Rates* with the draft report expected to be completed by late June.
Planning for the *Audit of Contract Management* is completed with fieldwork now due to commence in late June. Finalisation of this audit has been delayed by other priorities. The results of these audits are expected to be reported to the next meeting of the Audit and Risk Committee.
Data collection and analysis is well advanced in establishing *Automated Audit of Payroll Data*. The results of the first series of analysis will now be reported to the next meeting of the Audit and Risk Committee.
Internal Audit will continue to develop an advisory plan for the provision of probity advice for the current developments in Manly 2015. Similarly, Internal Audit has been engaged to provide probity advice in the regional External Audit Tender. A report on the probity framework operating in both of these developments will be provided to a future meeting of the Audit & Risk Committee
The overall 2012/13 program is behind schedule with the *Audit of Compliance and Enforcement Policy* and the *Audit of Recruitment and Selection Practices* now expected to be completed by late July 2013.

Completed Audits in the Current Period
The *Audit of ICT Service Continuity,* the *Audit of Investments* and the *Automated Audit of Accounts Payable Data* were finalised in the current period and are subject to a separate reports at the meeting.

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Recommendation:
i. The Committee recommends to Council that:

ii. The Internal auditor's Report on the Internal audit program be received and noted.

ACTION

ITEM 5 Audit Recommendations Implementation – Internal auditor's Report on the implementation of Internal Audit

The Internal Auditor spoke on his written report on the *"Report on the implementation of Internal Audit".*

The Audit reports presented to the Audit and Risk Committee provide an Executive Summary of the audit which is included in the meeting Agenda papers, and the full audit report which is available at each meeting. Each Audit report provides recommendations for management action, with a rating system for each recommendation based on the risk related to the Audit finding:

- Significant – High risk requiring urgent management action
- Moderate – Moderate risk requiring management action to be specified
- Minor – Low risk enabling resolution by routine procedures

Audit Implementation in Progress

The following audits have previously been reported to the Audit and Risk Committee:
Cash Handling (24 November 2010)
Tendering Procedures (24 November 2010)
Credit Cards (Finalised November 2011)
Records Management (24 March 2011)
Payroll Data Integrity (22 November 2011)
EFT Payments (22 November 2011)
Legal Services Expenditure (Finalised November 2011)
Commercial Leasing (20 March 2012)
Parking Management & Revenue (20 March 2012)
Long Term Financial Plan (5 June 2012)
Asset Acquisitions & Disposals (6 February 2013)
Fraud & Corruption Prevention (6 February 2013)
Capital Projects (6 February 2013)
Competitive Neutrality (6 February 2013)

The reports presented to the Audit and Risk Committee include an Executive Summary in the meeting Agenda papers, and the full audit report which is available at each meeting. At the completion of each audit, an Action Plan for Implementation of Report Recommendations is provided to Council Management for comment and determination of accountabilities. Copies of the above audit reports will again be available for review at the meeting.

Internal Audit has previously verified and reported to the Audit and Risk Committee on the completion of implementation of recommendations for two audits. Internal Audit will continue to conduct verification audits of the implementation actions in each of the above audits.

During recent months Internal Audit has been developing an improved database and procedures for the ongoing management and reporting of audit recommendations. This work is nearing completion.

At the time of this report, Internal Audit had provided some 187 recommendations to Council management for improvement in 14 reports provided to the Audit and Risk Committee. Of the recommendations provided, some 8 have been rejected by management for various reasons and management advice indicates that the majority of the remainder are either completed, or in the process of completion.

A summary of the Status of Recommendations together with details of current open recommendations were attached to the report

Recommendation
The Committee recommends to Council that:

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

ITEM 6 Audit of Investments – Internal Auditor's Report on Investments

The Internal Auditor Covered the Following points in his report:

Our review of Council's investment portfolio revealed that Council has appropriately diversified its $14 million investments (as at 31 January 2013) with various financial institutions. As at the date of our review, all of these investments were placed with Australian Deposit Taking Financial Institutions (ADI) in Australian Dollars. These investments are compliant with Investment Orders made by the Minister for Local Government.

Our review of Council investment risk register revealed that only "*Loss of income due to poor investment decisions* has been identified as an investment risk. Due to inherent risks in treasury operations there are number of other risks Council may need to consider.

Our review revealed that placement of funds in "unrated" institutions totalled 32.24% of the total portfolio for the month of July 2012. This includes placements made under the "Grandfathering" provision of the Ministerial Order. Council's investment policy states that the portfolio holdings must meet the asset class and credit rating requirements. The policy requires holdings with unrated ADI to be limited to 30% of total investment in any given period.

The review provided 5 detailed recommendations for improvement which were all rated as Minor Risk.

The recommendations call for the improvements to risk assessment documentation, limits on placements to non-rated institutions, and improved reporting.

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

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

1) The Internal Auditor's Report on Investments 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.

ITEM 7 **Internal Auditor's Report on ICT Service Continuity**

The following points were made in the Auditors report:

Council has developed a *Business Continuity Plan* (BCP). This plan provides an overarching framework for Council's business continuity strategy. The BCP was supported by various business unit Sub Plans.

Council has appropriately undertaken and documented a sound Business Impact Analysis (BIA) to identify business processes that are integral to keeping the business unit functioning in a disaster, and to determine how soon these integral processes should recovered following a disaster.

Council has developed a sound business recovery and continuity strategy which includes a strategy to address the actual steps, people, and resources required to recover a critical business process. Potential risks due to threats such as fire, flood, etc., have been appropriately identified, and the probability and potential impact to the business has been identified. This has been done at the division level to ensure the risks of all credible events are understood and appropriately managed.

Our review revealed a limited integration between the Maximum Acceptable Outage (MAO) in the business unit Sub Plans and the BIA in the IT Sub Plan. The IT Sub Plan falls short of the following details to enable robust ICT disaster recovery:

- Ranking / priority of IT services required to be recovered;
- Detailed procedures for ICT Continuity Management;
- A plan for routine disaster recovery test and training for each component of ICT service delivery.

The review provided 8 detailed recommendations for improvement of which one was rated as Minor, with the remainder were rated as Moderate Risk. The following summarises the recommendations provided:

Review of the Business Continuity Plan to ensure that the IT Continuity Sub-Plan integrates fully with other reliant Sub-Plans;

Update of specific recovery procedures;

Training of recovery personnel;

Plan, document and review results of all periodic disaster recovery tests programs.

Recommendation
The Committee recommends to Council that:

1) The Internal Auditor's Report on ICT Service Continuity 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.

ITEM 8 Automated audit of Accounts Payable Data

The Internal Auditor spoke to his written report on Automated Data audit – Accounts payable:

This review was the first in a series of data reviews to be conducted periodically.
The objective of the review was to identify potential erroneous data within the Accounts Payable (AP) system and/or ineffective processes in place which has or could ultimately result in financial leakages.

Over 9,000 payment and vendor master file records were extracted and provided by Council's Management Accountant. Data was analysed by Internal Audit and initial results discussed with relevant Council officers. Following enhancement to analysis parameters, final results were provided to Council officers for review and action.

The detailed data report is currently being reviewed and improvements actioned by Finance staff.

Recommendation:
The Committee recommends to Council that:

1) The Internal Auditor's Report on the Automated Audit of Accounts Payable Data at Manly Council be received and noted.

ITEM 9 General Business – Review of methodology

Clr Bingham expressed concern regarding the process and methodology used to categorise Council's Assets in relation to the funding shortfall gap which had reduced substantially from the previous year.

Chairperson John Gordon said from his experience that such a matter would be addressed and queried as part of Council's External Audit process of which the committee will get an opportunity to look at when its reviews Council's draft financial annual statements. He suggested that the appropriate staff member could address this matter and how the Asset Plans / Strategies of Council are arrived at briefly at the next meeting.

This was put to the General Manager for his consideration

Recommendation:

That the information be received and noted

ITEM 13 NEXT MEETING DATE:

Date: 2 October 2013
Time: TBA
Venue: The Cove Room, Manly Town Hall, 1 Belgrave Street Manly.

Meeting closed at 11.35am

TO: Internal Audit & Risk Committee

MEETING DATE: 06th November 2013

AUTHOR: Anthony Hewton, A/Executive Manager Corporate Services

SUBJECT: **Confidential Report – Annual Financial Statements 2012/13**

1. INTRODUCTION

The Audit & Risk Committee will receive a confidential briefing on Council's Financial Statements for 2012/13, and the recommendations of the External Auditor.

2. INFORMATION

The attached financial Statements are confidential / embargoed until adopted by Council. A presentation will be provided at the meeting for the Committee's information and comment.

3. RECOMMENDATION:

The Committee recommends to Council that the Report and attached Financial Statements for 2012/13 be received and noted.

ATTACHMENTS

Manly Council General Purpose Financial Statements for the year end 30 June 2013,

107 pages.

Anthony Hewton

Executive Manager Corporate Services

November 2013

TO: Internal Audit & Risk Committee

MEETING DATE: 6 November 2013

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

SUBJECT: **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 and the proposed Internal Audit Program for 2013/14.

INFORMATION

Internal Audit Resourcing

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

Internal Audit Planning

The Internal Audit Program for 2012/13 was approved on 5 June 2012. An updated form of the current Internal Audit Program is attached.

The proposed Internal Audit Program for 2013-2014 is subject to a separate report on the agenda.

Status of Audits

Fieldwork is completed on the *Audit of Rates* with the draft report now awaiting quality review prior to being issued to Council management for comment.

Fieldwork is in progress for the *Audit of Contract Management* with the audit report now likely to be finalised in November 2013. Experience at other group Councils shows that the budget for this audit was underestimated. The final report is likely to be finalised for the next meeting of the Audit and Risk Committee.

Fieldwork is completed for the *Audit of Recruitment* with the draft audit report currently awaiting quality review. These reports will be made available to the next meeting of the Audit & Risk Committee.

Requests for current period accounts payable and payroll data have been issued, with analysis to be undertaken commencing November 2013

In the previous period the *Automated Audit of Payroll Data* has been completed and is subject to a separate report on the agenda.

Internal Audit has developed a draft Probity Advisory Plan for the provision of probity advice for the current developments in Manly 2015. Subject to adoption of the proposed plan, Internal Audit will provide probity advice to the project as a separate task in the Internal Audit Program.

In the previous period, Internal Audit has provided probity advice for Council's regional tender for external audit contract which is subject to a separate report on the agenda.

The overall 2012/13 program (see Calendar attached) is behind schedule with the *Audit of Compliance and Enforcement Policy* now expected to be completed by November 2013.

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

October 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	Completed	ICT Service Continuity	AUD04/12
October '12	Completed	Competitive Neutrality	AUD08/11
	Completed	Asset Acquisitions & Disposals	AUD03/11
November '12	Deferred	*Audit & Risk Committee Meeting*	
December '12	Completed	Automated Audits - Payroll	AUD12/12
	Completed	Automated Audits – Accounts Payable	AUD13/12
January '13	Completed	Investments	AUD02/12
	6/02/13	*Audit & Risk Committee Meeting*	CONFIRMED
February '13	In Progress	Rates	AUD03/12
March '13	In Progress	Contract Management	AUD01/12
April '13	Delayed	Compliance & Enforcement Policy	AUD05/12
	In Progress	Recruitment & Selection Practices	AUD06/12
	NEW	Probity Advice External Audit Tender	AUD16/12
	Cancelled	*Audit & Risk Committee Meeting*	
May '13	NEW	Probity Planning/Advice Manly 2015	AUD17/12
June '13	6/06/13	*Audit & Risk Committee Meeting*	CONFIRMED

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 November 2013

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

SUBJECT: **Internal Auditor's Report on the Implementation of Internal Audit Recommendations**

1. INTRODUCTION

Since the commencement of the Internal Audit Program in 2010 sixteen audits have been completed and reported to the Audit and Risk Committee. This report provides updated information on the implementation of recommendations arising out of the audits.

2. REPORT

The Audit reports presented to the Audit and Risk Committee provide an Executive Summary of the audit which is included in the meeting Agenda papers, and the full audit report which is available at each meeting. Each Audit report provides recommendations for management action, with a rating system for each recommendation based on the risk related to the Audit finding:

- Significant – High risk requiring urgent management action
- Moderate – Moderate risk requiring management action to be specified
- Minor – Low risk enabling resolution by routine procedures

At the completion of each audit, an Action Plan for Implementation of Report Recommendations is provided to Council management for comment and determination of accountabilities. Prior to each Audit and Risk Committee Meeting Council management provide the Head of Internal Audit with updated Action Plans. Copies of the above audit reports will again be available for review at this meeting.

<u>Audit Implementation in Progress</u>

The following audits have previously been reported to the Audit and Risk Committee:

Cash Handling (24 November 2010)
Tendering Procedures (24 November 2010)
Credit Cards (Finalised November 2011)
Records Management (24 March 2011)
Payroll Data Integrity (22 November 2011)
EFT Payments (22 November 2011)

Legal Services Expenditure (Finalised November 2011)
Commercial Leasing (20 March 2012)
Parking Management & Revenue (20 March 2012)
Long Term Financial Plan (5 June 2012)
Asset Acquisitions & Disposals (6 February 2013)
Fraud & Corruption Prevention (6 February 2013)
Capital Projects (6 February 2013)
Competitive Neutrality (6 February 2013)
Investments (6 June 2013)
ICT Service Continuity (6 June 2013)

Internal Audit has previously verified and reported to the Audit and Risk Committee on the completion of implementation of recommendations for two audits. Internal Audit will continue to conduct verification audits of the implementation actions in each of the above audits.

At the time of this report, Internal Audit had provided some 200 recommendations to Council management for improvement in 16 reports provided to the Audit and Risk Committee. Of the recommendations provided, some 12 have been rejected by management for various reasons and management advice indicates that the majority of the remainder are either completed, or in the process of completion.

SUMMARY OF STATUS OF RECOMMENDATIONS

The following schedule provides updated information on the status of implementation of internal audit recommendations. This second report of this format enables comparison with the previous period report and shows a consistent level of management activity in addressing open recommendations.

	LAST PERIOD			THIS PERIOD			
	SIGNIFICANT	**MODERATE**	**MINOR**	**SIGNIFICANT**	**MODERATE**	**MINOR**	**TOTAL**
ON TRACK	0	41	6	0	0	0	0
DELAYED	0	7	4	0	23	5	28
COMPLETED	3	91	27	0	31	11	42
REJECTED	0	8	0	0	3	1	4
NEW	0	34	4	0	0	0	0
CLOSED	0	9	3	0	0	0	0

On Track recommendations include those recommendations which are currently open and within stated due date.
Delayed recommendations include those recommendations which are open and implementation is progressing beyond the due date or an updated response has not been provided by the relevant manager.
Completed recommendations include those recommendations which Council management have advised have been implemented.
Rejected recommendations include those recommendations which Council management have rejected and not implemented.
New recommendations include all recommendations raised in reports for the current period.
Closed recommendations include all recommendations where internal audit has verified implementation by Council management.

Details of current open recommendations is shown in the attached spreadsheet.

3. RECOMMENDATION:

The Committee recommends to Council that:

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

ATTACHMENTS

Action Plan for Implementation of Audit Recommendations

Michael Quirk

Head of Internal Audit North Shore Councils

October 2013

ACTION PLAN SHOWING IMPLEMENTATION OF AUDIT RECOMMENDATIONS - MANLY COUNCIL

AUDIT NUMBER	FINAL REPORT DATE	AUDIT CTTEE. DATE	AUDIT TITLE	REC. NUM.	RECOMMENDATION	RISK RATING	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	DUE DATE	COMMENT	DATE	REVISED DATE
AUD1001	22/11/10	23/11/2010	Cash Collections and Handling	7.1	We recommend Council print a pre-numbered ticket in a sequential order for "Programs & Events" ticket sales and the tickets running numbers are acquitted at end of the ticket sales with total collections.	Moderate	Agree. More information required. What "programs & events" is this for? Internal Audit Response: "program & events" are from Manly Art Gallery & Museum Sales Collection e.g. Kid's Art Adventures.	Gallery Director DM-HSF	30/09/11	Advice being obtained on cost effective ticketing system to meet requirement. No ticketing system has been instigated at Gallery or VIC.	5/06/2012	
AUD1006	28/09/11	22/11/2011	Payroll Data Integrity	2.4	We recommend the payroll office match receipts issued for "Long Service Leave Reserve Account" with individual employees' leave balances in the payroll database on a pre determined interval.	Minor	Agreed – add receipt number to manual leave adjustment	Payroll / OD Manager	Immediately	In-progress. Process to be amended to accommodate recently introduced TRIM requirements.	5/06/2012	
AUD1006	28/09/11	22/11/2011	Payroll Data Integrity	2.6	We recommend Council determine a policy position in relation to the allowing and recording of negative leave balances.	Moderate	Agreed	Payroll / OD Manager	30/06/12	Under review	5/06/2012	
AUD1006	28/09/11	22/11/2011	Payroll Data Integrity	3.1	We recommend Council investigate an automated process to monitor and report non compliance or breaches to these procedures in the monthly senior management report.	Moderate	Agreed	Payroll / OD Manager	30/06/12	Under review	5/06/2012	
AUD1007	10/11/11	22/11/2011	EFT Payments	1.2	We recommend Council design an exception report in "Authority" system to enable the Chief Financial Officer to perform an independent review of authorisation of EFT payments without Purchase Orders on a monthly basis.	Moderate	(1) Currently EFT authorisers ensure all supporting documents including purchase orders are in place when they sign off the payments. (2) The possibility of running an exception report for EFT payments without purchase orders will be investigated . (3) Utility bills and non creditors (one off payments less than $500) do not go through the PO system	CFO		Exception report being investigated. This is also monitored at the point of signing cheque and EFT voucher payments. A copy of the purchase order forms part of the paperwork attached to these payments. Staff currently being reminded and trained on importance of raising PO prior to doing work.	30/10/2013	
AUD1007	10/11/11	22/11/2011	EFT Payments	3.4	We recommend Council initiate a discussion with Commonwealth Bank to encrypt and secure the data transfer between "Authority" and CommBiz.	Moderate	Agree to the recommendation. A solution from Commonwealth Bank will be considered. We are currently in talks with CBA.	CFO	1/01/12	Ongoing investigation. Currently liaising with North Sydney Council who are in talks with Civica regarding this development.	23/05/2012	
AUD1103	9/10/12	6/02/2013	Asset Acquisitions and Disposals	1.7	We recommend Council set a policy direction to record portable and attractive items. The following should be addressed by the policy direction: * definition of portable and attractive items; * recognition of portable and attractive items; * responsibility for monitoring and control; * portable and attractive registers; and * stocktakes	Moderate	Agree to combination of stocktake or the completion of a certificate by the employee stating they still hold the asset and it is in good working condition.	Chief Financial Officer (CFO) / DM Civic & Urban Services	30/06/13	This Report being Presented to February 2013 Meeting actions reported next meeting.		
AUD1103	9/10/12	6/02/2013	Asset Acquisitions and Disposals	1.8	We recommend Council maintain a portable and attractive items register. This recording should be subject to a threshold value and the risks involved for each item.	Moderate	Agree	Chief Financial Officer (CFO) / DM Civic & Urban Services	30/12/13	This Report being Presented to February 2013 Meeting actions reported next meeting.		

ACTION PLAN SHOWING IMPLEMENTATION OF AUDIT RECOMMENDATIONS - MANLY COUNCIL

AUDIT NUMBER	FINAL REPORT DATE	AUDIT CTTEE. DATE	AUDIT TITLE	REC. NUM.	RECOMMENDATION	RISK RATING	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	DUE DATE	COMMENT	DATE	REVISED DATE
AUD1103	9/10/12	6/02/2013	Asset Acquisitions and Disposals	1.9	We recommend Council ensure that stocktakes of portable and attractive items are performed at least once a year, in order to safeguard identified portable and attractive items.	Minor	Agree	Chief Financial Officer (CFO) / DM Civic & Urban Services	30/06/13	This Report being Presented to February 2013 Meeting actions reported next meeting.		
AUD1103	9/10/12	6/02/2013	Asset Acquisitions and Disposals	1.10	We recommend Council establish an incident reporting protocol which should include the engineering department as a contact point for lost or missing assets.	Minor	Agree.	Chief Financial Officer (CFO) / DM Civic & Urban Services	1/03/13	This Report being Presented to February 2013 Meeting actions reported next meeting.		
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	1.1	We recommend that Management consider updating the Fraud Prevention policy and the supporting control plan to include key actions/controls in place that address key risks and achieves the 10 critical success factors.	Moderate	Policy and accompanying documents being amended and will be put to council after the comprehensive policy review is completed.	Manager Governance		Comprehensive Policy Review still underway, no action until this task is complete.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	1.2	Submit the updated Fraud Prevention policy to the GM and Council for approval. Management should also ensure that this policy/plan is integrated and consistent with Council's other relevant policies. Management also make this policy available on its website along with its other policies.	Moderate	Policy and accompanying documents being amended and will be put to council after the comprehensive policy review is completed.	Manager Governance		Comprehensive Policy Review still underway, no action until this task is complete.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	1.3	Any future review of the Fraud and Corruption Prevention plan should ensure that Managers from all Business areas are consulted and feedback obtained on the effectiveness of the actions in the plan.	Moderate	Policy will be circulated internally prior to presentation to GM / Cl for adoption	Manager Governance		Policy has been discussed at an Executive Management level and comments received will be progressed in the coming months.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	1.4	Management consider including a requirement in all staff positions requiring compliance with Councils Fraud Prevention Policy and Control Plan.	Moderate	Will be discussed with HR. Policy and Plan will be included in corporate training calendar and distributed to staff via iPolicy once adopted.	Manager Governance		Will be discussed with HR. Policy and Plan will be included in corporate training calendar and distributed to staff via iPolicy once adopted.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	2.3	Management ensure that there the findings/actions arising out the Governance Health Check have clear accountabilities and timeframes.	Moderate	Actions will be allocated to specific officers with timeframes once final recommendations are put to GM for adoption	Manager Governance		Actions will be allocated to specific officers with timeframes once final recommendations are put to GM for adoption	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	3.1	We recommend that Council Management (HR and the Fraud and Corruption Prevention Coordinator) develop an awareness program for all staff (including permanent staff, volunteers and casuals) relating to the adopted Fraud and Corruption Prevention plan which may include continuous training plans, visual messages/posters and other related guidance material. Any such training should be recorded in the training register.	Moderate	Will be included as part of the Corporate training program, will also be raised during corproate induction. Other awareness raising activities will be developed and implemented over time.	Manager Governance & OD Manager		Will be included as part of the Corporate training program, will also be raised during corproate induction. Other awareness raising activities will be developed and implemented over time.	31/10/2013	

ACTION PLAN SHOWING IMPLEMENTATION OF AUDIT RECOMMENDATIONS - MANLY COUNCIL

AUDIT NUMBER	FINAL REPORT DATE	AUDIT CTTEE. DATE	AUDIT TITLE	REC. NUM.	RECOMMENDATION	RISK RATING	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	DUE DATE	COMMENT	DATE	REVISED DATE
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	4.1	We recommend that Management consider adopting strategies to improve their customer awareness. These may include: *Including a statement in its Annual report regarding its stance on fraud and corruption prevention and the related policy/strategy * Introducing some visible information in its Customer Service area on the Councilpolicy on Fraud and Corruption prevention. * Publishing the Fraud and Corruption Prevention policy on the Council website once approved.	Moderate	Policy will be placed on website after adoption and exhition. Other awareness raising activities will be evaluated over time	Manager Governance		All policies are placed on Council's website for public access. Awareness raising activities will commence in 2014.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	4.2	We recommend that Management review the purchasing process and assess whether external parties (whether on contract or not) from which purchases are to be made or services received can be provided with a reference to the Councils relevant policies (being statement of ethics, Code of Conduct and Internal Reporting Policy) where feasible. This will ensure that all external parties have a clear and good understanding of the Councils stance on unacceptable behaviour and the reporting mechanisms available.	Moderate	Will be progressed after Policies adoption.	Manager Governance		Will be progressed after Policies adoption.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	6.1	Management assess what detection controls/systems are in place to manage high risk areas. A record should be coordinated and maintained by the Fraud and Corruption Coordinator of any such systems/reports etc relating to Fraud and Corruption risks.	Moderate	system to be developed late 2013	Manager Governance		To be developed after the comprehensive policy review is completed by the end of 2013.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	6.2	Management should consider whether additional detection systems are required for systems/processes identified with high residual risks (eg data mining, purchasing pattern recognition software, exception reports, regular and random audits).	Moderate	ongoing will be reviewed after detection system established.	Manager Governance		ongoing will be reviewed after detection system established.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	8.1	Management submit the investigation guidelines to the GM for approval. These guidelines should be applied across all types of investigations including PID's. All investigation plans/documents completed by Managers should also be forwarded to the Governance Manager for central review and record.	Moderate	to be progressed after the comprehensive policy review is completed.	Manager Governance		to be progressed after the comprehensive policy review is completed in late 2013.	31/10/2013	

ACTION PLAN SHOWING IMPLEMENTATION OF AUDIT RECOMMENDATIONS - MANLY COUNCIL

AUDIT NUMBER	FINAL REPORT DATE	AUDIT CTTEE. DATE	AUDIT TITLE	REC. NUM.	RECOMMENDATION	RISK RATING	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	DUE DATE	COMMENT	DATE	REVISED DATE
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	8.2	Once the Investigation guidelines are adopted, it should be communicated to all staff to ensure awareness of the basis investigation process.	Moderate	will be completed after guidelines adopted.	Manager Governance		will be completed after guidelines adopted.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	8.3	Management should also ensure that all Managers that can conduct investigations are appropriately trained in Investigation techniques. This will ensure consistency in the investigations.	Moderate	taining to be held once guidelines are adopted.	Manager Governance		training will be held in the 2014 after the guidelines are adopted.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	8.4	The HR dismissal policy, Councils Code of Conduct and the Fraud Prevention policy contain a reference to the Councils Investigation guidelines to be followed in the instance of a breach. This will ensure consistency and transparency in each investigation process.	Moderate	will be completed after guidelines adopted.	Manager Governance		will be completed after guidelines adopted.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	9.1	We recommend that Management provide a cross reference between the Code of Conduct, the Fraud Prevention policy and the HR policy on disciplinary action/dismissal.	Moderate	will be reviewed after guidelines are adopted.	Manager Governance		will be completed after guidelines adopted.	31/10/2013	
AUD1104	11/01/13	6/02/2013	Fraud & Corruption Prevention	9.2	We recommend that the HR policy on disciplinary action/dismissal include a link to the relevant ICAC/Police reporting requirements for instances of suspected corrupt conduct.	Moderate	being reviewed.	Manager Governance		being reviewed.	31/10/2013	
AUD1204	15/02/13		ICT Service Continuity	1.2	We recommend Council provide an advice and direction to staff in relation to the Microsoft Premier Support for server infrastructure in a DR scenario.	Low	Advice RE: Premier Support subject to TI Staff & GM review of Information Technology Continuity Sub Plan (1.1)	NR	1/04/13			

TO: Internal Audit & Risk Committee

MEETING DATE: 6 November 2013

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

SUBJECT: **Proposed Internal Audit Program for 2013-2014**

1. INTRODUCTION

Internal Audit was established as a shared service across six Councils with the appointment of the Head of Internal Audit in early 2010. One of the aims of the shared service agreement was to attempt to gain efficiencies and shared learning by conducting a similar or identical audit program across all six member Councils. The Internal Audit Unit, comprising two full-time staff and one part-time staff, has delivered over seventy-seven audit reports to the different Councils' Audit Committees.

2. INFORMATION

In 2011 Internal Audit developed a draft long-term audit plan aimed at addressing the significant risks of the six member Councils over a five to seven year period. This long-term plan will be subject to a major review in the coming twelve months. A copy of the draft long-term plan is attached.

In the past two years each Council has undertaken considerable work in assessing and documenting corporate risk. Internal Audit has also gained a greater depth of corporate knowledge from each Council. The majority of high or extreme inherent risks in Manly's current Enterprise Risk Register are addressed in the previous long-term plan, or the proposed Internal Audit Program.

The Draft Internal Audit Program for 2013-2014 has considered the latest corporate risk and other information from each of the six member Councils, and has aimed to include consistent high risk areas from each Council. The Draft Internal Audit Program for 2013-2014 is attached for consideration.

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.

3. RECOMMENDATION:

The Committee recommends to Council that:

1) The North Shore Council's Internal Audit Program proposed for 2013-2014 be adopted by Manly Council as presented in the report.

ATTACHMENTS

Draft North Shore Councils Internal Audit Program – 2013-2014

Michael Quirk

Head of Internal Audit North Shore Councils

October 2013

DRAFT NORTH SHORE COUNCILS AUDIT PROGRAM – 2013-2014

ID	Audit	Description	Benefit	Prop Coverage	Council
01/13	Recruitment & Terminations	Controls over engagement and termination of staff	Consistent approach with well controlled payment processes	All by individual testing of recruitment & termination processes, and of entry and exit payments	All
02/13	WHS & Workers Compensation	Controls over movement of funds and reporting	Compliance with better practice	All by individual testing of Council policy, capacity, delegations, monitoring and reporting. Consideration of Statewide coverage	All
03/13	Community Properties	Controls over allocation, use and management	Compliance and maximise available revenue source or social imperative.	All by individual testing of leases, licenses, agreements, variations, concessions and budget preparation.	All
04/13	Purchasing	Controls over quotations, ordering and payment processes	Assurance over integrity and value of processes	All by individual testing of policy, delegations, processes and reporting.	Willoughby North Sydney Mosman Manly Lane Cove
05/13	IT Projects	Controls over the procurement and implementation of new IT initiatives.	Better management of ICT spend	All relevant policies, procedures and ICT projects and procurements	Manly Mosman (Willoughby, North Sydney c/o from previous)
08/13	DA Self Assessment	Use of ICAC Audit tool by Council officers with validation by audit	Improved processes and corruption resistance	All recently approved DAs	Manly (North Sydney, Willoughby c/o from previous)
09/13	Automated Audits – Payroll	Analysis of current data based on tests developed to date	Higher reliance on payroll data integrity	Identification of payroll “red flags”	All
10/13	Automated Audits – Accounts Payable	Analysis of current data based on tests developed to date	Higher reliance on payments control	Identification of duplicates and validation of vendor data	All
11/13	Automated Audits - Rates	Development and analysis of data integrity tests	Higher reliance on rates data integrity	Identification of rates “red flags”	All

12/13	Post Implementation Reviews	Validation of implementation of agreed audit recommendations	Improved value and control arising from audit activity	Audit implementations completed and notified by Council Management.	All
16/12	Manly 2015 Probity Advice	Provision of advice and engagement of probity assurance.	Support and assurance of probity management of projects	Manly 2015 projects identified in Probity Plan	Manly

TO: Internal Audit & Risk Committee

MEETING DATE: 6 November 2013

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

SUBJECT: **Review of Internal Audit Charter and Audit & Risk Committee Charter**

1. INTRODUCTION

The Audit and Risk Committee Charter and the Audit Charter provide the framework and authority for the Committee and internal audit. Both of these charters are subject to periodic review.

2. INFORMATION

The Audit and Risk Committee Charter was last reviewed by the Committee on 31 May 2011, with minor adjustments to the Charter adopted by Council on 18 July 2011. The Charter is required to be reviewed every two years.

The Audit and Risk Committee Charter remains mostly consistent with the model Charter provided in Guidelines by the Division of Local Government, Department of Premier and Cabinet. A number of minor modifications are highlighted in red in the attached copy of the Audit and Risk Committee Charter.

The Audit Charter was adopted by the Audit Committee on 31 August 2010. The Charter requires that it be periodically reviewed to ensure relevance and consistency with industry standards. The Charter was reviewed against revised Guidelines for Internal Audit in May 2011.

The improvements currently recommended to the Audit Charter relate to naming the Charter specifically as the “Internal Audit Charter”, and providing cross-reference to relevant other Council documents. Renaming of the document clarifies the scope of the Charter as it relates only to the internal audit function. These improvements are highlighted in red in the attached copy of the Audit Charter.

3. RECOMMENDATION:

The Committee recommends that Council approve the changes to the Audit & Risk Charter and the Audit Charter as noted in red on the attached documents.

ATTACHMENTS

Audit and Risk Committee Charter

Audit Charter

Michael Quirk

Head of Internal Audit North Shore Councils

October 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:

3.1 Members (voting)

- Mayor (ex-officio)
- Councillors (3)
- 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 is advisory and 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 bi-annually.

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,~~Annually, 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 & Risk Committee Meeting	Date: 31st May 2011
	Council	Date: 18th July 2011

Manly Council

Internal 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 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 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 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 and Risk Committee. At each 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 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 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 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 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 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 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 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 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 and Risk Committee by the Head of Internal Audit.

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

17. Related Documents

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

Manly Council Audit and Risk Committee Charter

North Shore Councils Internal Audit Operating Protocols

Approved:	Audit and Risk Committee Meeting	Date: 31st August 2010

TO: Internal Audit & Risk Committee

MEETING DATE: 6 November 2013

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

SUBJECT: **Report on Probity in Tender for External Audit Services**

1. INTRODUCTION

The Internal Auditor has provided probity advice in relation to the regional tender for External Audit Services.

2. INFORMATION

At the request of six of the regional councils, Internal Audit provided probity advice relating to the procurement by tender of external auditing services for the next six years. At its meeting of 15 July 2013 Council resolved to accept the officer's recommendation to appoint Hill Rogers Spencer Steer as external auditors for the period 1 July 2013 to 30 June 2019.

Upon completion of the tender group evaluation process, Internal Audit provided each participating council a report of the probity advisory task and outcomes. A copy of the report is attached.

3. RECOMMENDATION:

The Committee recommends to Council that the Probity Report for the Audit Tender 2013 be received and noted.

ATTACHMENTS

Probity Report Audit Tender 2013

Michael Quirk

Head of Internal Audit North Shore Councils

October 2013

REPORT ON PROBITY ADVICE RELATING TO TENDER T-CS-01/13 PROVISION OF AUDITING SERVICES BY LANE COVE, MANLY, MOSMAN, NORTH SYDNEY, WARRINGAH AND WILLOUGHBY COUNCILS

INTRODUCTION

The North Shore Councils Internal Audit Service has provided probity advisory services in relation to the procurement of external auditing services being Tender for Auditing Services (T-CS-01/13). Following an initial request from Mosman Council the Head of Internal Audit agreed to provide probity advice for the procurement by North Sydney, Mosman, Lane Cove, Manly, Willoughby and Warringah Councils.
This report provides detail of key observations made during the tender process.

OBJECTIVES

The objectives of the engagement were to provide advice and recommendations for the conduct of the tender for auditing services, specifically in relation to:

- Value of money;
- Impartiality of processes and outcome;
- Removal and/or management of conflicts of interest;
- Accountability and transparency of process; and
- Maintenance of confidentiality.

SCOPE

The scope of the engagement included provision of advice in the preparation and evaluation of the tender specifications, tendering processes, attendance at the pre-tender meeting with tenderers, and at all meetings of the evaluation committee, communication with tenderers and verification of all documentation produced in relation to the tender. The engagement did not include verification or review of reports to councils as a result of the tender, or of contracts resulting from the tender.

It is important to note that this engagement was limited to the provision of advice on processes and preparation of plans and documents. The engagement was conducted with reference to Australian Standard AS8000.2003 Handbook HB325-2008 Assuring probity in decision-making. The engagement did not include the provision of probity assurance, and no audit opinion is provided in this regard. Further, no opinion is provided relating to the value for money of any particular tender.

TENDER SPECIFICATIONS

As lead council in the procurement, Mosman Council prepared the draft tender specification for initial discussion in December 2012. At the request of the representatives from each of the councils, the Head of Internal Audit agreed to act as probity advisor to the procurement in terms detailed above. Following input from all Council representatives, the specification was finalised and advertised via Tenderlink (and national press) on 26 February 2013.

The tender specification included general conditions of the proposed contract, and a number of schedules for completion by tenderers. Despite advice from the Probity Advisor, the evaluating committee agreed to include other specific auditing services as “core” services in the pricing specification of the tender, in addition to the financial statements audit service required by legislation.

The tender specification clearly stated that each Council would decide on the appointment of the successful tenderer. The specification called for pricing for each council for core services, together

with hourly rates for additional audit services. The specification also allowed for incentive pricing for bids covering three or more councils.

The tender specification provided detailed criteria for the evaluation of tender bids. The evaluating committee agreed that the evaluation would represent an overall best value approach, with each council responsible for subsequently reporting on the regional result, as well as their own council's result.

TENDER PERIOD

During the tender period a number of enquiries were raised and answered through Tenderlink. On 7 March 2013 a compulsory pre-tender meeting was held at Mosman with all prospective tenderers. Representatives from each Council were in attendance and answered all questions raised by the prospective tenderers. Minutes of the meeting were subsequently published.

The tender box and electronic tender box were opened as advertised on 8 April 2013. One paper-based and four electronic tenders were received and initially held securely by Mosman's Governance Manager, pending final agreement and sign-off of the tender evaluation plan.

TENDER EVALUATION

A draft tender evaluation plan was prepared by Mosman Council using similar documents prepared at Warringah Council. The evaluation plan included detailed compliance requirements, assessment criteria, and criteria weightings which included a 20% weighting on bid pricing.

All members of the Evaluation Committee agreed to the final Evaluation Plan on 18 April 2013. Tender submissions were subsequently made available to all Evaluation Committee members for appraisal.

Evaluation Committee members individually appraised tenders and scored the non-price criteria. In three of the councils the non-price evaluation was undertaken by a local evaluation committee with a single set of scores provided to the regional Evaluation Committee. As one of the participating councils had not completed evaluation scoring prior to the relevant Evaluation Committee meeting, the completed scoring of five council representatives were used by agreement of all Committee members.

As lead council, Mosman sought and received clarification to a number of minor matters from each of the tenderers. Mosman extracted pricing details from the tenders and provided the pricing evaluation in accordance with the Evaluation Plan. The results of the regional tender evaluation provided the following rankings:

	PwC	Prosperity	Pitcher Partners	KPMG	Hill Rogers Spencer Steer
Total Weighted Score	72.99	66.24	67.35	64.12	72.33
Ranking	1	4	3	5	2

At its meeting of 15 May 2013, the Evaluation Committee agreed to the above rankings. The Committee members further agreed to report both regional details, and the details for their own council evaluation in the report recommending the appointment of the contractor. The Evaluation

Committee met again on 11 June 2013 to conduct reference checks on the top two ranked tenderers.

CONCLUSION

The tender process observed by the Probity Advisor was conducted in accordance with the Local Government Act 1993 and associated Regulation. Procedures were implemented to ensure protection of confidential information, and the appropriate management of any conflicts of interest. A comprehensive evaluation plan was implemented which provided an appropriate framework for the objective evaluation of tenders. There was no observed bias in the evaluation process. Meetings and written communications were professionally conducted, and were consistent with the Evaluation Committee requirements.

The tender processes provided the basis for savings both in the procurement process and in the contract for auditing services. The tender evaluation provided a ranking of value for money on a regional basis. The value for money achieved in each council is dependent upon price variations at each council, possible discounts across the group and justification for variance from the group rankings.

Michael Quirk
Head of Internal Audit
North Shore Councils
14 June 2013

TO: Internal Audit & Risk Committee

MEETING DATE: 6 November 2013

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

SUBJECT: **Internal Auditor's Report on Automated Audit of Payroll Data**

1. INTRODUCTION

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

2. INFORMATION

Internal Audit has recently completed developing automated data audit routines (CAATs) for the examination and analysis of payroll data. A report of the audit analysis has been provided to Council management for review. The audit was included in the Internal Audit Program 2012/2013 previously approved by the Audit Committee.

A copy of the Executive Summary of the Audit is attached. A copy of the full report is available for review by the Committee.

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 the Automated Audit of Payroll Data at Manly Council be received and noted.

ATTACHMENTS

Manly Audit Executive Summary Automated Audit of Payroll Data

Michael Quirk

Head of Internal Audit North Shore Councils

October 2013

Head of Internal Audit

Internal Audit Executive Summary Report

Subject:	**Automated Data Audit – Payroll (Initial)**

Objective, Scope and Approach

The objective of the audit was to identify potential erroneous data within the payroll system and/or ineffective processes in place which has or could ultimately result in financial leakages.

A sample of the Payroll Master File and Payroll Payment Transactions was analysed using specific audit software (ACL). The payroll data was reviewed for:

a. Accuracy (calculations are correct)
b. Consistency (across all historical data)
c. Completeness (data fields are completed correctly)
d. Compliance (with policies enforced on the data)

It is important to note that the audit included analytical review of data representing payment transactions. The audit did not include substantive testing of payment transactions.

The data was extracted and provided by Council's Coordinator, Remuneration and Benefits. Data was analysed by Internal Audit and final results were provided to Council officers for review and action.
Data examined included:

Type of Data	Number of Records	Period of extract
Employee Leave Balance	3	As at March 2013
Employee Master Data	489	As at March 2013
Payroll Payment	1216	Pay Period 41/2013

Summary of Findings

This review was the first in a series of data reviews to be conducted. The data provided for analysis was in excel and print formats, and Audit will work with Management in ensuring that future data extracts are complete and irrefutable.

Employee Master Data

We reviewed casual employee working more than 12 months. We did identify some transactions requiring further review by Management. We suggest that Management review these to assess whether further details are required from the employees.

Leave Balance Test

We reviewed the exceptions with Council staff. We did identify some transactions requiring further review by Management. We suggest that Management further review these to assess whether further details are required

	from the employees. We noted that there were 26 employees with negative long service balances and four employees with negative annual leave balance. Management have advised that they have reviewed these instances and taken appropriate action.

Current Status	The detailed data report has been reviewed and improvements actioned by Finance staff.