

**SUBJECT: CCL 26/02/19 - AUDIT AND RISK COMMITTEE AND
INTERNAL AUDIT ANNUAL REPORT**

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PURPOSE

To table the Audit and Risk Committee (Committee) Annual Report for the 2017/2018 financial year to Council and note the 2018/2019 Forward Internal Audit Plan.

RECOMMENDATION

That Council:

- 1 Receives the Audit and Risk Committee's Annual Report for the 2017/2018 financial year at **Attachment A**; and
- 2 Notes the 2018/2019 Forward Internal Audit Plan at **Attachment B**.

KEY ISSUES

- 3 The Committee is required to report annually to Council in accordance with the Committee Charter and the Office of Local Government's Internal Audit Guidelines.
- 4 The Committee also provides oversight of City of Newcastle's (CN) Forward Internal Audit Plan.

FINANCIAL IMPACT

- 5 Committee external members are remunerated for their services as well as CN engaging an external service provider to undertake internal audits. All expenses relating to internal audit were within the adopted budget for 2017/18.

COMMUNITY STRATEGIC PLAN ALIGNMENT

- 6 **Open and collaborative leadership**
 - 7.2a Conduct Council business in an open, transparent and accountable manner.
 - 7.4a Continuous improvement in services delivery based on accountability, transparency and good governance.
- 7 **Open and Transparent Governance Strategy**
 - 4.5 Promote an organisation that eliminates or minimises risk.

- 4.6 Ensure accountability for public money and high levels of service, governance, quality, professional conduct and compliance with professional standards and other legislative requirements.

IMPLEMENTATION PLAN/IMPLICATIONS

- 8 The Committee meets five times per year in accordance with the Committee Charter. Meetings for 2018/2019 are scheduled for:
- i) 29 August 2018
 - ii) 11 October 2018
 - iii) 6 December 2018
 - iv) 14 March 2019
 - v) 23 May 2019

RISK ASSESSMENT AND MITIGATION

- 9 CN has an established Enterprise Risk Management Framework which provides a consistent and structured approach to identifying, managing and embedding risk management into CN's overall strategic and operational processes. Maintaining a Committee and an Internal Audit function is a key control to identifying, managing and mitigating risks. Internal Audit works in collaboration with senior management to create value by identifying opportunities to improve the efficiency and effectiveness of CN operations.

RELATED PREVIOUS DECISIONS

- 10 At the Ordinary Council meeting held on 27 February 2018, Council adopted the Committee Charter.
- 11 At the Ordinary Council Meeting held on 26 September 2017, Cr Jason Dunn and Cr John Mackenzie were appointed as Councillor Members of the Audit Committee, representing the newly elected Council.

CONSULTATION

- 12 The annual report was approved by the Committee at its meeting held on 6 December 2018.

BACKGROUND

- 13 The Committee "plays a pivotal role in the governance framework to provide CN with independent oversight and monitoring of CN's audit processes, including the CN's internal control activities. This oversight includes internal and external reporting, risk management activities, internal and external audit and compliance." (the Division of Local Government, *Internal Audit Guidelines*, September 2010).
- 14 The Committee membership of three (3) independent members and two (2) Councillors is in accordance with the Office of Local Government Internal Audit

Guidelines (September 2010) and the Committee Charter (approved by Council on 27 February 2018).

- 15 A function of the Committee is to oversee the internal audit function which focuses on evaluating and improving the effectiveness of risk management, control and governance processes of CN Internal Audit partners with Service Units and the Executive Leadership Team to deliver practical and realistic recommendations for improvement across the organisation.

OPTIONS

Option 1

- 16 The recommendation as at Paragraph 1 and 2. This is the recommended option.

Option 2

- 17 Council does not adopt the recommendation. This is not the recommended option.

REFERENCES

ATTACHMENTS

Attachment A: Audit and Risk Committee – Annual Report 2017/2018

Attachment B: 2018/2019 Forward Internal Audit Plan

Attachment A

Audit and Risk Committee Annual Report to Council 2017/2018



1. PURPOSE

To provide an annual report to Council on the Audit and Risk Committee's oversight of the internal audit function, the management of risk and effectiveness of internal controls.

2. BACKGROUND

The Audit and Risk Committee "plays a pivotal role in the governance framework to provide Council with independent oversight and monitoring of the Council's audit processes, including the Council's internal control activities. This oversight includes internal and external reporting, risk management activities, internal and external audit and compliance." (the Division of Local Government, *Internal Audit Guidelines*, September 2010).

The Audit and Risk Committee was established on 19 May 2009 by Ordinary Council Resolution. The Committee is made up of three external, independent members and two Councillor Members. This membership is in accordance with the Office of Local Government Internal Audit Guidelines (September 2010) and the Audit and Risk Committee Charter.

At the Ordinary Council Meeting held 27 February 2018, Council adopted the Audit and Risk Committee Charter to replace the previous Audit and Risk Committee Charter adopted by Council 25 November 2014. The Audit and Risk Committee Charter contains Audit and Risk Committee responsibilities. Broadly, these include oversight of Council's risk management control framework, legislative compliance and internal audit. The Audit and Risk Committee also reviews the external audit opinion and recommendations and other aspects of financial governance and reporting.

The Committee has no power of direction over the external audit or the manner in which the external audit is planned or undertaken. The Committee has no executive powers. It cannot make decision on behalf of CN or direct Council officers in the performance of their duties. Internal audit and the Audit and Risk Committee support the Chief Executive Officer to oversee CN's risk management and controls. Both functions are referenced in CN's Enterprise Risk Management Framework.

3. COMMITTEE MEMBERS

3.1 Councillor Membership

At the Ordinary Council Meeting held on 26 September 2017, Cr Jason Dunn and Cr John Mackenzie were appointed as Councillor Members of the Audit and Risk Committee, representing the newly elected Council.

3.2 External Membership

The current status of external members is:

- (a) Mr. Col Gellatly (Chair) resigned from the Audit and Risk Committee on 10 April 2018. Mr. Gellatly had served on the Audit and Risk Committee since September 2013.

- (b) Mr. Micah Jenkins' contract expired on 31 December 2017. Mr. Jenkins had served on the Audit and Risk Committee since September 2013.
- (c) Mr. Stephen Coates was appointed to the Audit and Risk Committee from 1 July 2017 for a period of three years. Mr. Coates was appointed as Audit Chair on 26 June 2018 as a result of the open tender process to replace Mr. Col Gellatly
- (d) As a result of an open tender process, Mr. Stephen Horne was appointed to replace Mr. Micah Jenkins as an independent member from 1 January 2018 for a period of three years.
- (e) As a result of an open tender process, Mr. Greg McKenna was appointed as an independent member from 25 June 2018 for a period of three years.

4. MEETINGS

4.1 Attendance

Audit and Risk Committee Member attendance for the 2017/2018 financial year meetings are shown in the following Table 1.

Members	Meeting Dates			
	17 August 2017	12 October 2017	1 February 2018	16 May 2018
Col Gellatly	✓	✓	✓	
Micah Jenkins	✓	✓		
Stephen Coates	✓	✓	✓	✓
Stephen Horne			✓	✓
Cr Dunn	✓	✓	Apology	Apology
Cr Mackenzie		✓	✓	✓
Cr Waterhouse	Apology			

4.2 Meeting Activity

Audit and Risk Committee meeting activity during 2017/2018 financial year included:

- (a) Approval of 2019-2021 three-year Forward Internal Audit Plan.
- (b) Endorsement of completed internal audits and implementation actions.
- (c) Receipt of briefings from PricewaterhouseCoopers and the Audit Office of NSW on CN's annual external financial audit plan and draft audit report.
- (d) Receipt at each meeting of the most recent Monthly Financial Performance Report.

A number of standing items are included in the Audit and Risk Committee business cycle. These are:

- (a) Annual insurance report.
- (b) Bi-annual review of Work Health & Safety Statistics.
- (c) Risk management report at each meeting.
- (d) Annual report on large write-offs.
- (e) Review of the annual external audit plan and briefing on the draft external audit report.
- (f) Bi-annual report on the performance and financial statements for Business Improvement Associations.

4.3 *Risk Management*

Risk management key activities are reported at each meeting of the Audit and Risk Committee. The Committee maintains interest in the implementation status of CN's Enterprise Risk Management Framework and clarification of risk data to inform business planning and decision making, including the internal audit plan.

4.4 *Performance Self-Assessment*

Due to the significant change in the Audit and Risk Committee during the financial year 2017/2018, the Performance Self-Assessment has been postponed to allow new members to have adequate experience to complete the assessment.

4.5 *Remuneration*

The total annual payment to the Audit Risk Committee external members for 2017/2018 was \$20,500.

The amount of \$26,324 was approved in the 2018/2019 budget for the Audit and Risk Committee. Councillor members of the Audit and Risk Committee are not paid.

5. INTERNAL AUDIT

CN outsources most of the internal audit function. Outsourcing ensures a high level of independence and autonomy from CN's management, and also ensures that specialised knowledge and skills can be procured to conduct audits of high risk areas which could impact the achievement of CN's objectives.

Internal resources were allocated to complete two audit engagements in the 2017/2018 Internal Audit Program.

On 16 June 2015, Council accepted the schedule of hourly rates tender of O'Connor Marsden & Associates Pty Limited to perform internal audit services from July 2015 for a period of three years with an option to extend the period of the agreement for one year by written agreement. This contract was not extended. On 30 July 2018 CN accepted the schedule of hourly rates tender of Centium to perform the Internal Audit Services from 1 August 2018 to 30 June 2021. The Contract for Centium was approved by the Tender Panel. This is a non-exclusive agreement that allows CN to appoint other, specialist audit providers as necessary.

The Audit and Risk Committee and internal audit provider are supported by an Internal Audit Co-ordinator.

The 6 internal audits completed for the 2017/2018 program were:

- (a) RMS Drives Audit
- (b) National Heavy Vehicle Accreditation Scheme (NHVAS)
- (c) Superannuation
- (d) Leave Management
- (e) Infrastructure Program Management Health Check
- (f) Councillors' Expenses

6. FORWARD INTERNAL AUDIT PLAN

Management takes a risk-based approach to formulate a three year, rolling forward internal audit plan. The audit planning process requires management to periodically consider risk levels, strategic objectives, audit history and other factors to determine audit priorities. These criteria are weighted to provide a scoring method so that audit priorities can be ranked. The 2019/2021 forward internal audit plan was approved by the Audit and Risk Committee on the 16th of May 2018.

Due to the recent redesign of CN combined with the change in the provision of internal audit services and the membership to the Audit and Risk Committee, the approved three year plan has been reviewed and amended to incorporate the existing three year plan into a high level strategic approach to Internal Audit that will incorporate a specific focus on current and emerging risks to CN. Ten high level topics have been recommended over a three year period. All topics will be covered over the next 2-3 years with approximately 4 audits being completed per year. The 2018-2019 Forward Internal Audit Plan is included at Attachment B.

Completion of the audit program will be subject to management of costs within the budget allocated. The allocated total budget for internal audit for 2018/2019 is \$289,078.

7. EXTERNAL AUDIT

The Audit and Risk Committee has continued to review CN's financial position and commitment towards achieving financial sustainability.

The Audit and Risk Committee met on 11 October 2018 to receive briefings on the draft audit and CN's financial statements in respect of the year ended 30 June 2018. A management report of significant financial matters for the year ended 30 June 2018 was reviewed.

Attachment B

Forward Internal Audit Plan 2018/2019



TOPIC	RESPONSIBILITY	TIMING	SCOPE
RMS DRIVES	Internal Audit Coordinator	Q1 2018/2019	Compulsory Compliance Audit for use of the RMS Database. Two extensions obtained due to change of internal auditor
Delegations, Fraud and Corruption and Control	Centium	Q2 2018/2019	To assess the adequacy of framework-level controls over CN's delegation policies and practices; and To assess the adequacy and effectiveness of the CN's fraud and corruption control framework.
National Heavy Vehicle Accreditation Scheme	Internal Audit Coordinator	Q3 2018/2019	An annual internal audit and bi-annual external audit are required to maintain heavy vehicle accreditation. The audit is limited to the Maintenance Management System. Compliance Audit.
Procurement & Tendering	Centium	Q3 2018/2019	The objective of this review is to assess whether CN has an adequate procurement and tendering management framework and system in place in order to minimise risk and facilitate the achievement of CN's objectives.
Financial Controls to Include Cash Handling	Internal Audit Coordinator	Q3 2018/2019	To assess the effectiveness of the CN's overall financial controls in place to include cash handling.
Customer Engagement	Centium	Q3 2018/2019	To assess the effectiveness of the framework and processes in place for CN to engage with customers to include satisfaction, complaints and feedback.
Strategic Objectives Assurance Mapping	Internal Audit Coordinator	Q4 2018/2019	To assess whether CN has an adequate procurement and tendering management framework and system in place in order to minimise risk and facilitate the achievement of CN's objectives.

TOPIC	RESPONSIBILITY	TIMING	SCOPE
Records Management	Centium	Q4 2018/2019	To Examine: <ul style="list-style-type: none"> • Council's existing records management practices and capabilities • Assess the extent to which CN complies with mandatory obligations such as the State Records Act as well as the standards and policies issued by the State Records Authority, such as GA39 (for local government). The output of the review will be a high-level roadmap / program of actions required to achieve compliance.
Recruitment and Performance	Centium	Q1 2019/2020	to assess the effectiveness of CN controls and processes to manage and oversee recruitment and performance to include: <ul style="list-style-type: none"> • Recruitment Policies and Procedures • Recruitment Planning and Approval • Recruitment advertising and selection • Applicant screening and notification • Ongoing staff performance
RMS Drives	Internal Audit Coordinator	Q1 2019/2020	Compulsory Compliance Audit for use of the RMS Database. Two extensions obtained due to change of internal auditor
IT Assurance Mapping	Internal Audit Coordinator	Q1 2019/2020	Prepare an assurance map for CN's IT functions, identifying risk control gaps and assessing the adequacy of existing assurances.
ICT & Cyber Security	Centium	Q1 2019/2020	To assess the adequacy of continuity and recovery controls over CN's critical IT systems. The review will also assess the adequacy of CN's controls that protect against cyber attacks and its ability to efficiently and effectively detect and respond to them if such attacks occur.