

## AUDIT COMMITTEE ANNUAL REPORT

### A. Introduction

This is the thirteenth Annual Report of the City of Port Phillip Audit Committee which covers the activities of the Committee for the period January 2008 to February 2009.

The Committee was established in December 1995 to provide a link between the processes of the external and internal auditors and Council management, and to provide advice and assurance to Council. In 2003 the *Local Government Act 1989* was amended to require all councils to establish an audit committee.

### B. Membership

In January 2008 Council changed the membership structure of the Committee. There are still four members but the make-up is now two external representatives, the Mayor of the City of Port Phillip and another Councillor.

Mr Ray Liggett, in his second year on the Committee as an external representative, undertook the role of Chairperson of the Committee for 2008. Mr Liggett's tenure on the Committee was extended by Council in October 2008 until the end of December 2010.

Mr Graham Lockwood resigned from the Committee in December 2007 and was replaced by Ms Susan Pelka as the second external member of the Committee for 2008. Ms Pelka was appointed to the Committee for two years.

Councillor Janet Cribbes was elected as Mayor in December 2007 and therefore has provided the Mayoral representation on the Audit Committee for 2008.

Councillor Janet Bolitho, Deputy Mayor, was appointed by Council to be the other Councillor representative on the Committee for 2008.

### C. Meetings

The City of Port Phillip Audit Committee met on four occasions during 2008:

26 March 2008  
11 June 2008  
27 August 2008  
8 October 2008

A further meeting was conducted on 17 February 2009 to finalise this report and conclude the 2008 Internal Audit Program.

Meetings were conducted at the St Kilda Town Hall.

Guests who regularly attended the meetings were, Mr Martin Thompson a partner with WHK Horwath Chartered Accountants, Council's Internal Auditor, Mr David Spokes, Chief Executive Officer of the City of Port Phillip and Ms Sally Calder, Executive Director of the Organisation Systems and Support Division of the City of Port Phillip.

Mr Stan Naylor from RSM Bird Cameron (Council's External Auditor and representative of the Victorian Auditor General) attended the 11<sup>th</sup> June meeting of the Committee to discuss the work plan for 2007/2008 Audit of the Financial Statements and Performance Statement. Mr Naylor and Ms Kristy Dundon attended the 27 August meeting to discuss draft accounts with the Audit Committee.

Executive Directors, senior managers and staff of the Council attended meetings as required.

Administrative support was provided to the Committee by Mr David Filmlter, Manager Finance and Investments, and Mr Norm McClelland Governance Advisor with the Organisation Systems and Support Division.

#### **D. Internal Audit**

During 2008 Council's internal audit service was provided by WHK Horwath Chartered Accountants. Mr Martin Thompson, a partner of the company and Mr Garry Leon, Senior Manager of the company, between them attended all meetings of the Audit Committee during 2008.

WHK Horwath undertook the audits listed on the 2007/2008 Internal Audit Program. The established process for an internal audit is:

- the auditor submits an audit scope to the appropriate Council manager for approval;
- on completion of the field work the auditor prepares a draft report which is provided to the Council manager for insertion of management responses to the audit recommendations;
- the completed report is then reviewed by Council's Executive Team before being presented to the Audit Committee; and
- the report is presented to the Audit Committee by the Internal Auditor and relevant Council officers also attend the meetings to address questions from the Committee.

The Internal Audit Program is developed by Council management and the Internal Auditor and is presented to the Audit Committee for endorsement. Matters that are considered for inclusion on the program include risks that are highlighted on departmental risk plans and matters identified on the Council's strategic risk plan.

Council tendered its internal audit service late in 2008 and subsequently appointed Pitcher Partners as its internal auditor for a period of three years with a two year extension. It should also be noted that the Victorian Auditor-General has appointed WHK Horwath as Council's external auditor.

### **E. Assistance To The Council**

The Committee is mindful that it has a responsibility to respond to requests for advice from Council and the Committee would like to restate to Council that it continues to welcome any approach for assistance or advice.

The Committee would also like to take this opportunity to thank:

- the Mayor and staff of the City of Port Phillip for making themselves available to attend Committee meetings;
- the Internal and External Auditors for the production of high quality reports provided to the Committee throughout 2008; and
- the administrative staff for their support provided to the Committee.

### **F. Audit Committee Terms of Reference**

The Terms of Reference used by the Committee to guide its activities were adopted by Council in May 2005.

The Audit Committee reviewed its Terms of Reference during 2007. The Committee made a comparison between its Terms of Reference and a model charter for non-government organisations and found that its current Terms of Reference was concise and easy to understand, but in the Committee's 2007 Annual Report to Council recommended the addition of:

- a clause that requires the Committee to annually review:
  - itself;
  - individual members of the Committee; and
  - the Internal Auditor; and
- a clause indicating the quorum for the Committee to be three of the appointed members.

The Committee also in its 2007 Annual Report to Council advised that it was not common practice to have a Council officer as a member of a Local Government Audit Committee and that this position be replaced by an additional Councillor representative.

The Audit Committee was advised that the Council adopted the following resolution regarding amendments (*in italics*) to the Audit Committee Terms of Reference in January 2008:

- *that the quorum for a meeting of the Committee be three (3);*
- *that the Committee is required to annually review:*

- *itself;*
- *individual members of the Committee; and*
- *the Internal Auditor;*
- that the membership of the Committee will consist of:
  - The Mayor
  - *An additional Councillor* (to replace the Executive Director)
  - Two external members appointed by Council
- The external members will be selected from the *broader* community and will have corporate management experience and exposure to financial risk management functions. External members will preferably be members of the Port Phillip community.

The Council's resolution has been implemented by the Committee.

The Audit Committee annual report to Council is based upon the Committee's compliance with its responsibilities in its Terms of Reference. One of the responsibilities of the Audit Committee is to ensure the Council discharges its responsibilities for financial reporting, maintaining a reliable system of internal controls and fostering the organisation's ethical development. The Audit Committee does this by ensuring:

- the effectiveness of the annual audit program;
- improved credibility of, and objectivity of financial reports;
- effective management of financial risks; and
- compliance with laws and regulations.

Each of these matters is dealt with individually:

### **Annual Audit Program**

The Council's Audit Program is separated into two distinct programs – internal and external audit. The current Internal Audit Program for 2007 and 2008 was developed by Council management in conjunction with the Internal Auditor, WHK Horwath. The external audit for 2007/2008 was undertaken by RSM Bird Cameron, the agent of the Victorian Auditor General.

The Internal Audit Program is developed through the following process:

- the Internal Auditor is requested by the Audit Committee to recommend matters to be considered for inclusion in the program;
- high risks emanating from Council's departmental risk management plans are also considered for inclusion in the program;
- Council's Executive Team is given the opportunity to have input into the program – matters from the strategic risk plan, as well as, other issues;
- the scope of the internal audit should not overlap with the scope of the external audit;

- the program is reviewed annually in accordance with the above requirements and can be amended to encompass audits of high priority emanating during the year; and
- the Audit Committee signs off on the final Internal Audit Program.

The Audit Committee continually seeks and receives assurances from the Internal Auditor and Council management that the Internal Audit Program is adequate and addresses the most important needs of the organisation. As such, the Committee is mindful that the Internal Audit Program needs to be an evolving program that can be continually updated and realigned to suit the changing needs of the organisation.

The scope of the external audit is the responsibility of the Victorian Auditor-General and is therefore beyond the authority of the City of Port Phillip Audit Committee. The Audit Committee has discussions with the External Auditor about the audit of the annual accounts.

Reports of both the Internal Auditor and External Auditor are presented to and reviewed by the Audit Committee.

Mr Martin Thompson and Mr Garry Leon (Internal Auditor) attended the meetings of the Audit Committee during 2008 and presented the findings of Internal Audit reports, as well as, providing advice to the Committee when requested.

The process for the presentation of audit reports is:

- the Auditor presents the report to the Committee;
- relevant staff are provided with the opportunity to respond to the recommendations of the Auditor; and
- the Committee directs questions to the Auditor and Council staff.

Audit reports can only be presented to the Audit Committee once the report contains management comments in response to the audit recommendations and has been reviewed by the Council's Executive Team. The management comment should either state that the manager agrees, partly agrees or disagrees with the audit recommendation, contain a comprehensive explanation of action to be undertaken and a date by which the action is expected to be completed, or, if appropriate, that no further action is required.

After the report has been initially presented to the Committee, high and significant risk audit recommendations are followed up by the Internal Auditor at the end of each year to determine if these issues have been satisfactorily resolved. The Internal Auditor reports to the Committee the progress made on the implementation of the audit recommendations. If Council management agrees to implement the audit recommendations, any high and significant risk recommendations that are not implemented within the agreed time are to be brought to the notice of the Committee.

Where necessary the Committee will request follow-up information/reports from Council staff or the Internal Auditor.

The External Auditor was represented at two meetings of the Audit Committee during 2008. Mr Stan Naylor from RSM Bird Cameron, agent of the Victorian Auditor-General, attended the June 2008 meeting of the Committee to outline the work plan for the annual audit, as well as, the August 2008 meeting of the Audit Committee to discuss the draft 2007/2008 Financial Statements and Performance Statement prior to the accounts being presented to the Council for "in principle" approval. The External Auditor was invited to advise the Audit Committee of any matters considered to warrant the attention of the Committee.

A further report on the external audit is provided in Attachment 1.

### **Financial Reporting**

Council's accounting and reporting policies are to a large extent determined by the requirements to comply with:

- Australian Accounting Standards;
- the *Local Government Act 1989*;
- *Local Government (Finance and Reporting) Regulations 2004*; and
- International Financial Reporting Standards.

Council's significant accounting policies are outlined in Note 1 of Council's financial statements published in the annual report.

The *Local Government Act 1989* and the *Local Government (Finance and Reporting) Regulations 2004* outline the reporting requirements that a council must undertake, namely:

- Council Plan
- Strategic Resource Plan
- Annual Budget
- Annual Report containing the Financial Statements and Performance Statement
- Quarterly Reports comparing budgeted with actual revenue and expense

The *Local Government Act 1989*, now requires councils to comply with principles of sound financial management, namely:

- prudent management of financial risks
- policies that provide reasonable stability in the rate burden
- consideration of financial effects on future generations
- full, accurate and timely disclosure of financial information

The Audit Committee received the following significant reports during 2008:

- The 2008/2009 Council Plan (October 2008 meeting)
- The 2008/2009 Annual Council Budget and Strategic Resource Plan (August 2008 meeting)
- 2008 Quarterly Management Reports to Council (various meetings)

- The audited Financial Statements and Performance Statement for 2007/2008 (August 2008 meeting)

The Quarterly Management Reports to Council outline:

- the actual financial performance of Council compared to budget, with explanations of major variances;
- the progress of capital works projects; and
- the major achievements for each quarter.

As the Audit Committee is provided with the Quarterly Management Reports after they have been reported to Council, Council should note the Audit Committee has not signed off on these reports prior to them being presented to Council.

The Financial Statements and Performance Statement are audited by the Victorian Auditor-General and the ensuing Management Letter is provided to the Audit Committee for consideration. The recommendations in the Management Letter are discussed by the Committee and the letter is revisited by the Audit Committee to check on the implementation of the audit recommendations.

The Committee has continued to have input into the development of the organisation's internal controls through the process of monitoring the implementation of the recommendations of the Internal and External Auditors.

The approach by the Committee has continued to be that management be required to put in place internal controls to manage and minimise, or where possible eliminate, Council's exposure to risk.

### **Management of Financial Risks**

The August 2008 meeting of the Audit Committee was attended by both the Internal and External Auditors to discuss the audit of the Financial Statements and Performance Statement for 2007/2008. The External Auditor provided the Committee with a summary of the audit process. The External Auditor was provided with the opportunity to raise with the Committee any financial issues that he considered should be brought to the attention of the Committee. An overview of the audit is provided in Attachment 1.

The Audit Committee was provided with the Strategic Resource Plan and 2008/2009 Budget outlining the revenues and expenditures for the forthcoming year. The Committee also received the quarterly management reports detailing the variances between actual and budgeted revenue and expenditure. A comparison of the end of the 2007/2008 financial year results was made with the March 2008 Quarter Management Report projections to determine if any unexpected significant variances occurred that were not identified in the projections.

Council has in place departmental risk management plans and Council's Risk Management Coordinator provides an update to the Committee twice yearly about the status of any major risks. Major risks are considered for inclusion in the Internal Audit Program.

At the end of the 2007/2008 financial year the Audit Committee reviewed both the collection of rates and the rates that remain outstanding to ensure that the collection rate was within accepted sector standards and appropriate actions were being undertaken to recover rates owing. The Committee noted that the recovery of rates for 2007/2008 was 96.99%, compared to 97.81% for 2006/2007, which was perceived to be a good outcome.

### **Compliance With Laws and Regulations**

There are numerous pieces of legislation that councils must comply with. To assist Council management comply with relevant legislation, the Council has in place a comprehensive Delegations and Authorisations Register. Under the *Local Government Act 1989* and other pieces of legislation, the Council and the Chief Executive Officer are given certain powers, duties and functions. Many of the powers, duties and functions can be delegated by Council and the Chief Executive Officer to Council staff. The Council must keep a register of these delegations. Port Phillip Council has a register that is very comprehensive in that it encompasses the allocation of responsibilities covered by over 50 Acts and Regulations to appropriate Council officers. The Register is updated regularly and was most recently provided to the Committee in October 2007.

The *Local Government Act 1989* requires Council review its delegations within twelve months after every council general election. Port Phillip Council undertook the review in 2005. The next scheduled review is 2009, however, Council undertook an interim review in April 2007. The interim review facilitated amendments to the schedule of delegations reflecting:

- current legislative updates; and
- the new organisation structure introduced in January 2007; as well as
- adjustments to the financial authority limits of the Chief Executive Officer to assist in the processing of payments under contract for major capital projects previously approved by Council.

The Chief Executive Officer advised the Audit Committee at its June 2008 meeting the Minister for Local Government had initiated an investigation into possible breaches of the *Local Government Act 1989* with respect to tendering of contracts and expenditure on vendors in excess of \$100,000. The Audit Committee was subsequently advised that the Ombudsman had invoked an "own motion" and took over the investigation from the Minister.

On 6 June 2008, the Chief Executive Officer briefed the Chair of the Audit Committee on the circumstances of the Minister's/Ombudsman's investigation and the actions the Council was putting in place to ensure compliance with the legislation.

On 11 August 2008 the Chair of the Audit Committee met with available Councillors and Council's Executive Team and discussed with them the role of internal audit, audits undertaken that related to contracts and tendering, and actions being taken by Council and the Audit Committee to address the contracts and tendering issues. Subsequent meetings of the Audit Committee included a verbal update by the Chief Executive Officer on the status of actions. In particular the Audit Committee requested a more detailed update for the scheduled December 2008 meeting which was subsequently deferred until 17 February 2009. The section "Compliance Reporting" on page 29 of this report outlines the actions taken by Council to improve the contract and tendering processes.

The Audit Committee was not satisfied that the Register of Delegations and Authorisations provided assurance that the organisation was complying with all relevant legislation and therefore requested management to investigate the development of a more robust attestation process going forward. Page 31 of this report outlines Council's proposed action to address attestation of compliance.

Recent Internal Audit reviews of legislative compliance that were undertaken include:

#### 2005 and 2006

- National Competition Policy
- Freedom of Information Act 1982
- Food Act 1984
- Whistleblowers Protection Act 2001
- Planning and Environment Act 1987

#### 2007

- Building Act 1993

#### 2008

- Road Management Act 2004
- Local Government Act 1989 - tendering

The Delegations and Authorisations Register, together with the various specialty audits, provide a reasonable assurance to Council and management that the organisation is complying with laws and regulations.

## **G. Reporting to Council**

A copy of the minutes of every Audit Committee meeting are circulated to all Councillors and a report is prepared for Council after each meeting of the Audit Committee to advise Council of the matters discussed and the status of audits undertaken.

The Audit Committee Annual Report to Council outlines the activities of the Committee for each calendar year.

## **H. Major Issues Discussed By The Audit Committee**

The major issues discussed by the Audit Committee during 2008 were:

- ❖ The Internal Audit Program for 2008
- ❖ The Status of Audits and monitoring the implementation of audit recommendations from previous years, namely:
  - Contract Management of Parking Services
- ❖ Review of new audits conducted during 2008, namely:
  - Tendering
  - Occupational health and safety
  - IT systems and controls
  - Leases and management of Council owned properties
  - Payroll
  - Waste collection and recycling
  - Compliance with the Road Management Plan
- ❖ Ongoing and Miscellaneous Matters
  - Leave accruals
  - The collection of outstanding and overdue rates during 2007/2008
  - Risk management updates
  - City of Port Phillip investment policy
  - Audit Committee annual work plan
  - OH&S report on issues, incidents and actions
  - Fixed asset accounting policy
  - Review of asset useful lives
- ❖ Chief Executive Officer's Issues:
  - Annual Budget and Strategic Resource Plan 2008/2009
  - Council Plan 2008/2009
  - Quarterly management reports to Council

A report containing details of these issues is provided in Attachment 1.

**I. Attendance by members at Committee meetings during 2008**

Attendee		Mar '08	Jun '08	Aug '08	Oct '08	Feb '09
Ray Liggett	Member Chairperson	✓	✓	✓	Apology	✓
Susan Pelka	Member	✓	✓	✓	✓	Apology
Cr Janet Cribbes	Member Mayor	✓	✓	✓	✓	–
Cr Janet Bolitho	Member Deputy Mayor	✓	✓	Apology	✓	–
Cr Frank O'Connor	Member Mayor (2009)	–	–	–	–	✓
Cr Judith Klepner	Member Deputy Mayor (2009)	–	–	–	–	✓
David Spokes	Guest CEO	✓	✓	✓	✓	–
Darrell Treloar	Guest CEO (Interim)	–	–	–	–	✓
Sally Calder	Guest Executive Director	✓	✓	✓	✓	✓
David Filmalter	Guest Manager Finance	✓	✓	✓	Apology	✓
Martin Thompson	Guest Internal Auditor	✓	✓	✓	Apology	✓
Garry Leon	Guest Internal Auditor	–	–	–	✓	–

**ATTACHMENT NO. 1****ISSUES ARISING AT AUDIT COMMITTEE MEETINGS DURING 2008****AUDIT PROGRAM**

The audits performed during 2008 were initiated from the Internal Audit Program produced jointly by Council management and WHK Horwath, and endorsed by the Audit Committee.

Following is a table detailing the audits undertaken during 2008 that are of relevance to this report outlining the requirements of each audit, the timing and the current status.

The Internal Audit Program is reviewed annually and amended to include major risks that may arise during the year.

WHEN	WHAT	PURPOSE	STATUS
2007	Contract management of parking services	Internal Audit to conduct a review of the adequacy of policies and procedures, the resources applied to the management of the parking services contract, compliance with commercial contract conditions and the identification and management of risks under the contracts.	Presented to the Audit Committee March 2008.
2008	Tendering	Internal Audit to conduct a review of the Council's tendering process to assess whether the controls and processes are operating satisfactorily.	Presented to the Audit Committee March 2008.
2008	Occupational health and safety	Internal Audit to conduct a review of the organisation's health and safety management system to assess whether controls and processes are operating satisfactorily.	Presented to the Audit Committee August 2008.
2008	Management letter annual accounts 2007/2008	Audit recommendations relating to the audit of the annual accounts 2007/2008.	Not received in time from the Auditor-General to be reviewed at the October 2008 meeting. Will be considered at the first meeting in 2009.
2008	IT systems and controls	Internal Audit to conduct a review of the Council's information technology general operating environment, to assess whether the controls and processes are operating satisfactorily with respect to governance,	Presented to the Audit Committee October 2008.

WHEN	WHAT	PURPOSE	STATUS
		user access security, physical security, change management, back-up and availability and operations management.	
2008	Leases and management of Council owned properties	Internal Audit to conduct a review of the management of leased Council properties to assess the adequacy of Council's procedures and processes. The audit aims to ensure that management has established formal lease arrangements over both commercial and community based leases and to consider the adequacy of commercial returns on leases or alternatively the transparency of the allocation of community based leases.	Presented at the first meeting in 2009.
2008	Waste collection and recycling	Internal Audit to conduct a review of Council's recyclable waste collection, to determine the adequacy of the procedures and practices. The audit aims to review the adequacy of identifying and setting recyclable waste management targets, and consider whether the recyclable waste management strategies and practices of Council reflects generally accepted sound practice and are conducive to reducing waste.	Presented at the first meeting in 2009.
2008	Payroll	Internal Audit to conduct a review of Council's payroll procedures and practices	Presented at the first meeting in 2009.

WHEN	WHAT	PURPOSE	STATUS
		to assess whether the controls and processes are operating satisfactorily. The audit aims to assess the adequacy of internal controls over payroll systems to determine if Council is unnecessarily exposed in terms of risk.	
2008	Compliance with the Road Management Plan	Internal Audit to conduct a review of Council's compliance with its Road Management Plan to assess whether the controls and processes are operating satisfactorily. The audit aims to identify Council's obligations under its Road Management Plan, consider the adequacy of Council's road asset inspections and reporting procedures.	Presented at the first meeting in 2009.

It is important to note that there is capacity in the Internal Audit Program to address significant issues that may arise from time to time.

## **STANDING ITEMS**

### **Accrued Leave Entitlements**

During 2008 the Committee monitored the number of staff with excessive levels of accrued annual leave. The Audit Committee has stated that the failure of employees to take their annual leave each year results in increased costs to Council and the weakening of an important auditing tool.

Council policy requires annual leave in excess of the prescribed limit of 40 days to be forfeited at the end of June and December each year, unless arrangements to take the excess leave have been agreed with management. To date no annual leave has been forfeited as staff have either:

- reduced accruals below the 40 day ceiling; or
- come to an agreement with managers about when the excess leave will be taken.

Council management provides a report of excessive leave accruals to every meeting of the Audit Committee.

The matter of excessive accruals of annual leave is raised annually in the Management Letter by the External Auditor, therefore the Committee has continued to recommend that managers be vigilant and ensure that staff take holiday leave annually.

In 2004/2005 the number of staff with annual leave accruals in excess of 40 days peaked at around 35 staff. During 2007 this figure reduced to 23 staff. During 2008 the figure has been as low as 18 and as high as 28. The peaks traditionally occur immediately prior to school holidays and the Christmas period. Managers will continue to receive reports on a monthly basis to monitor the level of annual leave accruals.

### **Risk Management and Insurance Updates**

The Audit Committee has requested that Council's Risk Management and Insurance Coordinator provide an update on risk and insurance matters twice yearly to the Committee.

Any high level risks revealed through Departmental Risk Management Plans are considered for inclusion in the Internal Audit Program.

Council's approach is to minimise risk, and where possible eliminate it. This is done by promoting a high level of risk awareness throughout the organisation.

The Committee also receives updates relating to:

- insurance premiums
- claims history analysis
- insurance liability audits

- over and under excess claims management

## STATUS OF AUDITS PRESENTED IN 2008

### Contract Management of Parking Services

The objectives of the audit were to:

- review the adequacy of policies, procedures and practices in place regarding contract management;
- obtain and review the four parking contracts;
- review compliance with commercial contract conditions;
- review the adequacy of the management of the performance of the contractor by the contract manager;
- review the adequacy of resources applied to the management of the contracts including the level of dependence on the contract manager; and
- review the identification and management of risks under the contracts.

The audit focused on the 4 parking contracts of:

- parking administration;
- ticket machine maintenance;
- coin collection; and
- ticket machine maintenance and coin collection in Albert Park Reserve.

The audit found that Council has in place an adequate control environment over the management and control of the parking services contracts, however, the audit did identify some risks with respect to the observed processes. The main issues identified were:

- contract management policies and procedures used;
- the need for training for contract managers and supervisors;
- currency of insurance certificates; and
- potential for skills gap in the long term absence of the contract managers.

The Audit Committee requested follow-up action with respect to a number of the issues raised.

### Tendering Review

The objectives of the audit were to:

- review the adequacy of tendering policies and procedures;
- review the requirements and process for the preparation of tender documents;
- consider the processes for tender advertising, submission and receipting and securing;
- review the process of tender evaluation; and
- review Council's compliance with the Local Government Act, when establishing the contracts.

The audit assessed the practical application of Council's policies and procedures through the analysis of 2 recent tenders chosen in conjunction with management.

The audit concluded that the City of Port Phillip's tendering processes are operating adequately. Issues raised by the auditor included:

- negotiating prices with the selected tenderer;
- preparation of business plans;
- protection of soft copies of tender documentation; and
- approval of evaluation panel members.

The Audit Committee requested follow-up action with respect to a number of the issues raised.

### **Occupational Health and Safety Review**

The objectives of the audit were to:

- review the level and quality of existing OH&S policies, procedures and/or Safe-Work practices as per Australian Standard 4801;
- review the level and quality of the implementation of Council's OH&S management systems for Family Day Care and Home and Community Care (HACC) services;
- review the adequacy of the overall OH&S management system by identifying associated strengths, weaknesses and gaps in the various elements of the OH&S management systems;
- review the documented policies and evaluate for compliance with special consideration to:
  - risk identification;
  - induction and ongoing training of employees;
  - investigation and reporting of incidents;
  - supervision of employees;
  - ongoing health and safety promotion;
  - appropriate licensing and maintaining of plant and equipment;
  - operation of health and safety committees; and
  - occupational rehabilitation;
- identify the processes and procedures that have been established, and are operating, regarding contractor OH&S and assess the efficacy of these processes and procedures and identify possible areas for improvement;
- review the adequacy of KPI's and reporting as they relate to contractor OH&S;
- assess the adequacy of processes for the undertaking of risk assessment or job safety analysis (JSA) for works;
- review actions taken by contract supervisors for non conformance of health and safety requirements and follow-up actions with repeat offenders;
- confirm that processes have been put in place to ensure that contractors report on their health and safety performance during the contract term and

- for ensuring the prompt reporting of all incidents to the risk officer and where appropriate, the relevant health and safety authority; and
- review a sample of 2 contract management files to ensure that Health and Safety Plans, etc. have been provided.

The audit did not cover Workcover insurance and claims.

The audit found, amongst other things, that:

- the management of OH&S is generally compliant with legislation and that the OH&S Management System complies with most elements of the AS4801 standard;
- OH&S policies and procedures are in place and available to staff;
- there is very specific task based induction training for Family Day Care and Community Care staff and detailed emergency preparedness procedures in place;
- Council needs to further develop its hazard registers;
- there needs to be induction and ongoing OH&S training consistently conducted for all new employees; and
- large contracts were observed to follow processes set out in Council's contractor OH&S management policy and procedures, however, smaller contracts were less compliant.

The Committee noted that the audit had a good result and that the outcome should be brought to the attention of Council.

## **IT Systems and Control Review**

The objectives of the audit were to:

- review IT general controls operating across the Wide Area Network (WAN) and general system management controls in the following key areas:
  - IT governance framework;
  - logical access security management over operating systems, database management systems and communication management systems;
  - physical access security management over the IT equipment, including communications equipment;
  - change control management over operating systems, database management systems and communications management systems;
  - system availability management over the information systems environment; and
  - IT operations management;
- IT Access security controls operating for the following application systems:
  - Finance Management Application
  - Payroll Application
  - Rates Management Application

The audit found that there had been considerable work done in the last two years to address many aspects of IT operations, infrastructure and

performance with a significant level of overall internal control improvement well in evidence. Areas for suggested improvement are IT operations performance standards, password management, disaster recovery preparedness and system log monitoring.

The Committee noted the report.

### **Review of Leases and Management of Council Owned Property**

The objectives of the audit were to:

- review the adequacy of property management policies and procedures;
- identify all properties which are leased to third parties, distinguishing between commercial and community based leases;
- ensure that properties run/managed by third parties are done so under a formal and current lease arrangement;
- review the transparency of rents for community allocated properties and commercial allocated properties;
- review that Council is achieving an appropriate return on investment for properties let for commercial purposes; and
- review the adequacy and completeness of the property register.

The audit found that Council early in 2007 conducted a review of all Council property functions and developed a property policy, strategy and set of procedure documents. The policy was subsequently endorsed by Council in April 2008. Council resourced a centralised property unit in the 07/08 budget year to have carriage of the property strategy.

Although a strategy and clearly defined roles were provided during the Council review, the audit found that these have yet to be implemented. The audit observed a number of shortcomings in management and service-delivery practices that detracted from the capacity of providing high-quality, and fully effective, property management services. Due to the decentralised nature in which leases and licenses are managed, the audit identified a number of general control weaknesses. Council has prepared an implementation plan to address the audit recommendations.

The Committee noted the report.

### **Payroll Review**

The objectives of the audit were to assess the adequacy of Council's internal controls by:

- reviewing Council's policies and procedures regarding payroll;
- reviewing the processes for ensuring the validity/existence of employees, including staff appointments, terminations and transfers;

- reviewing the adequacy of the process for recording and paying autopay and timesheet employees for ordinary time and overtime worked, including timesheets and changes in pay rates;
- identifying whether the payroll system controls are reasonable, including reconciliations, bank accounts, leave balances and master file changes;
- reviewing the adequacy of the process for the transfer of payroll information between the payroll system and the general ledger; and
- identifying that appropriate payroll reports are used, audited and authorised;
- ensure that PAYG and superannuation payments issues are appropriately managed;
- ensuring that termination payments are calculated correctly; and
- determining the adequacy of the process for recording and paying employees for leave.

The review found that Payroll Policies are available on Council's intranet site and cover all key aspects of the payroll function. The City of Port Phillip Payroll Office Instructions Manual is comprehensive and provides detailed steps in performing the fortnightly pay runs, as well as maintenance of the payroll database, preparing management reports and locations for saving data.

There were a number of weaknesses identified in the system controls with respect to master file changes, excessive leave balances, the pay run payment file and reconciliation of payroll reports. Council has prepared an implementation plan to address the audit recommendations.

The Committee noted the report.

### **Recyclable Waste Collection Review**

As a result of changes in consumption and packaging practices, the management of solid, non-hazardous material has emerged as a significant issue for the community. This type of waste is generated from households, street litter, municipal parks and gardens, and commercial and industrial organisations. A large proportion of household waste is collected by municipal councils. Commercial and industrial waste, on the other hand, is primarily collected by private sector organisations engaged on a commercial basis.

The objectives of the audit were to:

- review the adequacy of identifying and setting recyclable waste management targets;
- review Council's performance against region and State targets;
- review the opportunities to increase the waste diversion rate and meet community expectations; and

- consider whether the recyclable waste management strategies and practices of Council reflects generally accepted sound practice and are conducive to reducing waste.

With respect to adequacy of identifying and setting recyclable waste management targets – whilst Council has not been able to achieve its set targets, it has adopted the State Government targets and incorporated them into their strategic planning and waste management objectives. Monthly data is collated and reported internally within Council against a set KPI (45% diversion rate).

With respect to Council's performance against Region and State Targets – recyclable waste management targets (45% diversion rate by 2008) have not been met. The current average monthly diversion rate for 2008 is 38.9%. Council does not believe the State Government target of 45% in 2008 is attainable without the use of an MRF (Multi Recycling Facility).

With respect to opportunities to increase the waste diversion rate and meet community expectations – Council has a public education and promotion strategy in place for schools and the community. Council has developed a Waste Wise Strategy (the Strategy) which contains specific outcomes, strategies and initiatives from the City of Port Phillip Corporate Plan 2005-2009, meet / exceed waste diversion targets. The Strategy does not, however, extend to 2013, when the next milestone of the State Government Towards Zero Waste Strategy has been set.

With respect to whether the recyclable waste management strategies and practices of Council reflect generally accepted sound practice and are conducive to reducing waste – Council has been unable to achieve its diversion rate targets with its current strategies and projects. In terms of meeting residents expectations, a July 2008 Community Satisfaction Survey reported waste management service satisfaction at only 66% satisfaction, of which 6% responded that services need “..a lot of improving...”.

The Committee noted the report.

### **Review of Council's Compliance With the Road Management Plan**

In response to the Victorian Road Management Act, Council has prepared its Road Management Plan (the Plan). The Plan, together with its supporting documents, has been developed to establish a management system for the local road functions that are the responsibility of Council. The management system is based on policy and operational objectives and, at the same time, recognises resource limitations in undertaking the necessary '*levels of service*' and '*performance targets*' outlined in the Plan. The Plan will then form the basis of its defence in relation to future legal actions in respect of road asset related actions.

The objectives of the audit were to:

- identify Council's obligations under its Road Management Plan, including:
  - inclusion of all relevant road assets;
  - responsibilities for Council and others (e.g. Vicroads, DSE, abutting municipalities, utility / service authorities etc.);
  - co-ordination of use of the road reserves including the installation of various road and utility infrastructures;
  - road asset inspection requirements; and
  - maintenance response times; etc.;
- consider the adequacy of recording and complying with the Plan's road asset inspections, including:
  - safety inspections and identification of defects;
  - incident inspections;
  - defect inspections;
  - condition inspections; and
  - maintenance of documentation;
- consider the adequacy of recording, prioritising and complying with the Plan's road maintenance standards and defects response, including:
  - intervention levels;
  - response times; and
  - emergency response;
- review the adequacy of the reporting of Road Management Plan compliance to senior management.

The review found that Council has in place a Road Management Plan (Plan). Procedures exist to develop and update the current Plan in order to maintain its relevance with Council resources and capabilities. Council has in place effective processes for responding to emergency requests and for making areas safe, without delay, as significant hazards are identified.

However, the review did find a number of deficiencies in recording and reporting on compliance with the objectives and obligations of the Plan. The audit identified a range of issues with respect to current processes, particularly regarding controls over the monitoring and reporting on adherence to timeframes for inspections and rectification works. Council has presented an implementation plan to address the audit recommendations.

The Committee noted the report.

### **2007/2008 Audit of the Annual Accounts**

RSM Bird Cameron, Council's External Auditor and representative of the Auditor-General, attended the August 2008 Audit Committee meeting to discuss the 2007/2008 annual audit.

The Manager Finance and Investments made the following comments to the Committee:

- for 2007/2008 Council has an underlying surplus (excluding one off non cash items) of \$16.79m;

- the surplus is down on the 2006/2007 surplus of \$20.13m mainly due to the reduced growth in rates revenue which resulted from a conscious decision by Council to keep the rate rise to 2%;
- cost of labour increased 7.75% due to Enterprise Bargaining salary movements, 13.2 new positions and additional agency staff;
- contracts expenditure was adversely impacted by abnormally high increases in fuel and energy costs;
- Council has a strong working capital position;
- Council redeemed \$4.0m in debt early;
- there has been a reduction in the Capital Works rollover from over \$19.0m to just over \$7.0m;
- cash and investments reduced by \$13.0m, however, this funded the early retirement of debt and was also used to invest long term (beyond one year); and
- Council's equity has increased by \$273.0m due mainly to the revaluation of its land.

The external auditor made the following comments:

- the quality of the accounts was much improved on prior years – the accounts were presented for audit complete, having undergone management scrutiny;
- there are no outstanding matters that were unexpected;
- solicitors' letters regarding contingent liabilities have been received; and
- drainage assets, which audit advised would be subject to considerable scrutiny, have had a lot of work done with respect to condition assessment and valuation, however, there is still some more work to be done.

The Committee stated that the Plain English Guide accompanying the accounts was very good and that the accounts for 2007/2008 represented a good outcome.

The Committee made the following recommendation to Council:

*The Audit Committee determined that Council at its Special Meeting on Monday 1<sup>st</sup> September 2008 be advised that the Committee had examined the accounts for 2007/2008 with the External Auditor and based on the examination, recommend to Council that the accounts be adopted in-principle, however, the Audit Committee requested to be advised of any significant changes prior to this recommendation being made to Council.*

The Council at its Special meeting on 1<sup>st</sup> September 2008, noted the recommendation of the Audit Committee.

Matters that were categorised by the Auditor in the above reports as either "high" or "significant" risks are followed up in the annual review of prior year audit recommendations and will be presented to the Audit Committee in 2009.



## **MISCELLANEOUS ISSUES**

### **Outstanding and Overdue Rates**

The Committee reviewed the collection of rates and the rates outstanding as at 30 June 2008 and determined that a collection rate of 96.99% was a good outcome. The collection rate as at 30 June 2007 was 97.81%.

### **City of Port Phillip Investment Policy**

The Council's Investment Policy is scheduled to be reviewed annually by the Audit Committee.

The Council approved a new Investment Policy in April 2008 after it was developed with the assistance from an external expert and the Treasury Corporation of Victoria. The revised policy required Ministerial approval for some of the proposed investment types. The Minister approved some investment types, but disallowed others, therefore, the revised policy was presented to the Audit Committee in August 2008 prior to presentation to the Council in September.

The Committee stated that it was comfortable with the revised policy.

At its September 2008 meeting, Council resolved to:

1. Adopt the revised Investment Policy.
2. Delegate to the Manager, Finance & Investments the authority to exercise investment decisions on behalf of Council that are in accordance with the policy.
3. If investing in managed equity funds, investigate ethical investment options in the first instance and proceed with these providing they achieve equivalent returns.
4. Receive a quarterly report on the performance of its investment portfolio against the proposed benchmarks.

### **Fixed Asset Accounting Policy, Land Under Roads Accounting Policy & Review Of Asset Useful Lives**

The Committee received a report relating to the review of the above accounting policies, as well as, a listing of Council's asset depreciation methods and asset useful lives which were reviewed by management and became effective as at the 1 July 2008.

During 2007/2008 an important drainage condition survey was undertaken by closed circuit television of 2% of Council's drainage assets. The survey undertaken by an independent organisation determined that the life of the drainage assets was approximately 185 years, however, as the survey

sample was relatively small Council decided to adopt a conservative 150 year life for drainage assets for depreciation purposes.

The Committee noted the revised policies.

## **CHIEF EXECUTIVE OFFICER'S ISSUES**

At every Audit Committee meeting the Chief Executive Officer is provided with the opportunity to present matters to the Committee.

The Chief Executive Officer uses this agenda item to present the following important documents to the Committee:

### **Quarterly Management Reports**

The Committee received the 2008 Quarterly Management Reports that are presented to Council. The reports provide:

- a financial overview for each quarter comparing actual figures with budget estimates;
- the highlights of each Division for each quarter;
- key performance indicators; and
- the progress of the Capital Works Program.

This document provides the Audit Committee with information about how the organisation is performing against budget predictions.

### **2008/2009 Annual Budget & Strategic Resource Plan**

The Chief Executive Officer provided the Audit Committee with an overview of the annual budget for 2008/2009.

The key features of the budget reported to the Committee were:

- a low average rate increase of 2.9%;
- \$2.1M to be spent on open space projects;
- \$511K allocated for climate change initiatives;
- \$531K set aside for social justice and community building programs;
- an increase in child care places;
- 41 initiatives linked to the Community Plan; and
- \$25.7M to be spent on capital works.

Features of the capital works program include:

- \$1.5M on the St Kilda Foreshore development
- \$500K on improvements to pocket parks
- \$1.6M on the Betty Day Centre redevelopment
- \$1.0M Elwood Foreshore upgrade
- \$1.3M on footpath rehabilitation
- \$2.35M on road rehabilitation and resurfacing.

The Committee was advised that the 2008/2009 Council Budget is guided by the Council Plan 2005-2009 and the Community Plan 2007-2017, and that the

Strategic Resource Plan improves the linkage to strategic plans agreed by Council which have financial impacts beyond a one year budget horizon.

### **Council Plan**

The Committee received a copy of the 2008/2009 Council Plan and it was explained how the plan was developed and how the community have input into the process. The Committee was also told that the Community Plan provided strong direction for the Council Plan.

The Committee noted the plan and stated that it was a good summary of how the City views its objectives.

### **Compliance Reporting**

The Chief Executive Officer during 2008 provided the Committee with updates regarding actions undertaken to address the shortcomings in Council's contract and tendering processes which were the subject of an 'own motion' by the Ombudsman.

The Committee was advised that with respect to reporting non-compliance Council has focussed on the issues relating to contracts and tendering and has explored systems that would assist in complying with legislation.

The Committee was advised Council has undertaken the following actions to improve its processes in the following areas:

Contracts and tendering:

- In February 2007, Management undertook a vendor based audit of all contracts/purchasing relationships. This audit confirmed that there were a number of potentially non compliant contracts. There were also a number of vendors with whom the city did significant business and where no contract was in place.
- Management worked closely with the organisation to correct as many of these relationships as possible. During 2007 vendor reports were worked on with the Executive Directors and other officers to establish the status of those relationships and future actions required.
- A Recovery Plan was developed for the Council in October 2007 in which a commitment was made to continue to '...better integrate contract management, procurement and continuous improvement in the organisation.'
- In November 2007, quarterly reports were introduced to the Executive Team to identify any potentially non-complaint contracts.

- Since December 2007, Contract Compliance Metrics have been included in the Quarterly Management Report to Council from the CEO.
- Vendor compliance reports were continually refined.
- A comprehensive review of tendering guidelines has begun and the guidelines will be placed on Intranet in a simplified and user friendly format.
- July 2008 an independent review of Council's tendering and related processes was conducted. A number of recommendations were developed to be implemented over time.
- Staff levels have been increased in a restructured 'Tendering and Contracts' unit to enable the unit to take a lead role in tender and contract administration.
- Tender administration functions of the 'Tendering and Contracts' unit have been increased.
- Development of an ongoing training program for relevant staff, including newly appointed staff, has commenced.
- A 'Corporate Contracts' timetable will be developed that details amongst other things all current contract values, expiry dates, extension dates and review dates to facilitate improved forward planning of tendering processes and contract management and report progress to the Executive Team as part of the quarterly compliance report.
- An Accountability Framework that clearly defines roles within the organisation relating to tendering and contract management processes will be developed.

#### Purchasing:

- In July 2007 Council moved from self authorisation of purchase orders to all purchase orders being approved by the next level supervisor as per authorisation limits.

#### Training and Development:

- Early 2008 Council developed a compliance handbook for all managers and Coordinators, (compliance with legislative and policy responsibilities), and compulsory training for the same group of leaders, as part of a Management Development Program.
- Finance Basics was also a component of this Management Development Program. It included a half day workshop on procurement procedures for expenditure up to \$100,000 and over that amount.

- It is envisaged that this training will be updated annually and all Managers will be required to be 'refreshed' on these topics as part of the compulsory skills training.

Policy:

- In May 2008 the Executive Team endorsed a new Gift and Hospitality Policy effective from 1 July 2008 and it has been incorporated as an attachment to the Employee Standards Policy.
- In July 2008 the Fraud Policy was updated and endorsed by the Executive Team.
- In August 2008 ET approved in principle a new Conflict of Interest Policy that has been incorporated as an attachment to the Employee Standards Policy and will be signed-off by all staff.

With respect to systems available to assist with attestation of compliance, the Audit Committee was advised by Council management that the Municipal Association of Victoria (MAV) had sourced the supply of computer software to assist councils with legislative compliance. Council management has submitted an expression of interest in purchasing the compliance tool being facilitated by the MAV, subject to the demonstrated capabilities of the tool.

The Audit Committee stated that it could oversee the implementation of the recommendations in the Ombudsman's own motion report into contracting and tendering at Port Phillip.

ATTACHMENT NO 2

**CITY  
OF  
PORT PHILLIP**

**AUDIT COMMITTEE**

**Terms of Reference**

**Adopted May 2005  
Amended January 2008**

## AUDIT COMMITTEE TERMS OF REFERENCE

<b>Purpose</b>	<p>The Audit Committee co-ordinates the activities of the internal audit process, the Auditor-General and Council management in order to achieve overall organisational objectives in an efficient and effective manner.</p> <p>The Audit Committee advises Council in the discharge of its responsibilities for financial reporting, maintaining a reliable system of internal controls and fostering the organisation's ethical development.</p>
<b>Objectives</b>	<p>Audit Committee will provide advice to the CEO and the Council on ensuring:</p> <ul style="list-style-type: none"> <li>o effective management of financial risks</li> <li>o improved credibility and objectivity of financial reports</li> <li>o compliance with laws and regulations</li> <li>o the effectiveness of the annual audit program</li> </ul> <p>Audit Committee will provide an effective means for communication between the Victorian Auditor-General's Office, internal audit and the Council's management.</p>
<b>Policy framework</b>	The committee's work is informed by the requirements of the Local Government Act 1989 and will operate in accordance with any state government guidelines for local government audit committees.
<b>Work plan</b>	The committee will annually identify priorities and tasks for the year in its annual work plan. The plan will be developed and adopted by the committee at the commencement of each calendar year.
<b>Membership</b>	<ol style="list-style-type: none"> <li>1. The committee will consist of: <ol style="list-style-type: none"> <li>a. The Mayor</li> <li>b. An additional Councillor</li> <li>c. Two external members appointed by the Council</li> </ol> </li> <li>2. The external members will be selected from the broader community and will have corporate management experience and exposure to financial and risk management functions. External members will preferably be members of the Port Phillip community.</li> <li>3. External members will be appointed for a two-year renewable term.</li> <li>4. The chairperson will be selected by the Council from the external membership.</li> <li>5. The quorum for a meeting will be three (3) of the appointed members.</li> </ol>
<b>Remuneration</b>	External members receive payment as set by the Council <sup>1</sup> .
<b>Meetings</b>	The Committee will meet at least quarterly.
<b>Resourcing</b>	<p>Agendas and papers for meetings will be distributed before the weekend prior to the meeting day by Council officers.</p> <p>The committee will consult with Council's internal and external auditors and may require the attendance of Council staff to provide information on relevant matters.</p>
<b>Reporting</b>	The committee will ensure that it reports its activities to the Council after every meeting.
<b>Review</b>	<p>The Committee is required to annually review:</p> <ul style="list-style-type: none"> <li>• itself;</li> <li>• individual members of the Committee; and</li> <li>• the Internal Auditor.</li> </ul>

<sup>1</sup> Audit committee remuneration \$6,000 per annum for the chairperson and \$5,000 for the other external member (set by Council October 2006).

## ADVISORY COMMITTEES GENERAL PROCEDURES

<b>Closing the loop</b>	<p>Council officers are responsible for ensuring that committee members are advised of:</p> <ul style="list-style-type: none"> <li>• progress or outcomes of any advice provided by the committee</li> <li>• any Council report or Council decision relevant to the committee's work</li> <li>• dates of Council meetings discussing matters relevant to the committee</li> </ul>
<b>Committee powers</b>	<p>Committees provide advice and organise their work according to their terms of reference. Advisory committees do not have any formally delegated powers under the Local Government Act.</p>
<b>Declaration of interests</b>	<p>A member with a conflict of interest or perceived conflict of interest in a matter before the committee must declare their interest prior to committee discussion of the item.</p>
<b>Term of membership</b>	<p>Members of committees will be appointed for a term of two years or less. Membership terms will end no later than 31 December of the relevant year. Members can be reappointed for further terms.</p>
<b>Annual report</b>	<p>Each committee will provide an annual report to the council in October, November or December of each year<sup>2</sup>. The report will set out the committee's work of the previous year and planned work for the coming year.</p>
<b>Term of committee</b>	<p>Each committee will continue its work until no later than its sunset date. Council may extend the term of any committee. The annual report of the committee can recommend to Council that its term be continued.</p>
<b>Review of terms of reference</b>	<p>Committee terms of reference may only be amended by the Council. Committees may recommend to Council changes to their terms of reference in their annual report.</p>

Note: the procedures on this page apply to all advisory committees of the Council of the City of Port Phillip in addition to each committee's separate terms of reference.

<sup>2</sup> The Audit Committee annual report will be prepared for the period January to December each year and reported to Council early the next year.