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**STRATEGY AND POLICY REVIEW COMMITTEE**  
**6 APRIL 2009** **GOVERNANCE AND COMPLIANCE**

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<b>A5</b>	<b>AUDIT COMMITTEE ACTIVITIES UPDATE &amp; PRESENTATION OF THE 2008 AUDIT COMMITTEE ANNUAL REPORT TO COUNCIL</b>
<b>LOCATION/ADDRESS:</b>	<b>N/A</b>
<b>EXECUTIVE DIRECTOR:</b>	<b>SALLY CALDER EXECUTIVE DIRECTOR ORGANISATION SYSTEMS &amp; SUPPORT</b>
<b>PREPARED BY:</b>	<b>NORM MCCLELLAND GOVERNANCE ADVISOR</b>
<b>FILE NO.:</b>	<b>34/04/37</b>
<b>ATTACHMENTS:</b>	<b>2008 AUDIT COMMITTEE ANNUAL REPORT TO COUNCIL</b>

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**1. PURPOSE**

- 1.2 To present to Council the City of Port Phillip Audit Committee Annual Report for 2008.
- 1.3 To bring to the attention of Council the matters discussed at the February 2009 meeting of the Audit Committee.
- 1.4 A copy of the Annual Report is attached.
- 1.5 The minutes of the February 2009 meeting have been circulated to all Councillors.

**2. RECOMMENDATION**

- 2.1 That the Strategy and Policy Review Committee recommend that Council receive and note the 2008 City of Port Phillip Audit Committee Annual Report to Council (attached) detailing the activities of the Committee for the year including the internal audits undertaken and how the Committee meets its responsibilities within its Terms of Reference.
- 2.2 That the Strategy and Policy Review Committee recommend that Council receive and note the report outlining the matters considered by the Audit Committee at its February 2009 meeting, including issues such as the internal audit program, excessive leave accruals, annual report to Council, the 2008 Management Letter, and the following internal audits – Council management of leased properties, recyclable waste collection, compliance with Council's road management plan and payroll review.

**3. BACKGROUND AND CONTEXT**

- 3.1 The City of Port Phillip Audit Committee Terms of Reference require that the Audit Committee report annually to Council, summarising the activities for each year. The attached Annual Report encompasses the activities of the Audit Committee from January 2008 to February 2009.
- 3.2 Council resolved on 18 December 1996 that it be advised of all matters considered by the Audit Committee. This report advises Council of matters discussed at the meeting held on Tuesday 17 February 2009.
- 3.3 The Best Practice Guidelines for Local Government Entity Audit Committees and Internal Audit, November 1999, recommend:
- that minutes and a report explaining specific recommendations and key outcomes should be forwarded to the next Council meeting after each Audit Committee meeting; and
  - that Audit Committees should report annually to their Councils summarizing their activities.
- 3.4 This report complies with the requirements of the Audit Committee Terms of Reference, the Council resolution and the Best Practice Guidelines for Local Government Entity Audit Committees and Internal Audit.
- 3.5 The tenure of the Committee is ongoing as Council is required by section 139 of the *Local Government Act 1989* to have an Audit Committee.
- 3.6 Attached is the Annual Report of the Audit Committee for 2008. The report details the activities undertaken at the four meetings in 2008 and the meeting in February 2009, and specifically contains reviews and outcomes of the internal audits conducted during 2008, the major issues addressed by the Committee and how the Committee fulfilled its responsibilities within its Terms of Reference.
- 3.7 Matters considered by the Audit Committee at its February 2009 meeting were:
- Annual Work Plan – the Committee received a copy of the 2008 work plan and was advised that the majority of matters had been dealt with. The 2009 work plan will be provided to the Committee at the next meeting.
  - Internal Audit Program – the Committee discussed the development of the program and recommended that the Council's internal auditor undertake a risk review to assess the robustness of Council's risk management framework and to inform proposals around the internal audit program, as well as, review Council's contracts and tendering processes. The Committee was advised that all audits on the 2008 internal audit program had been completed.
  - Leave Accruals – the Committee received an update about the number of staff with excessive balances of accrued annual leave (above 40 days) as at the end of January 2009. The new members on the Committee were advised that even though this was not a significant issue the Committee had made a

commitment to the external auditor to review excessive leave balances. Management was requested to investigate whether reporting equivalent full-time days was possible as the statistics were distorted by leave owing to part-time employees who worked a small number of hours. A further report will be provided for the next meeting.

- Attestation to Major Non-compliance – the Committee was advised that Council’s compliance focus has been on the contracts and tendering processes. The Committee was told what had been done to address shortcomings in the contracts and tendering processes. The Committee was advised that the Coordinator of the new Contracts and Tendering Unit would attend the next Committee meeting to discuss the implementation of improvements to the contract and tendering processes and to outline the way forward. The Committee was advised that the Municipal Association of Victoria had identified compliance as a sector wide issue and had sourced a supplier of computer software to assist with attestation of non-compliance.
- Management of Leased Properties – the Internal Auditor stated that Council has significant holdings of property and the management of these was operating less than satisfactorily and that Council had already identified this and was taking action to address the problems. The Committee noted that the target dates to implement the audit recommendations had passed and the Committee was advised that the majority of audit recommendations had been implemented. A Property Board was established and first met in October 2008 and the Board would provide a status report on the management of leased properties to the Audit Committee after June 2009.
- Recyclable Waste Collection – the Internal Auditor stated that there are challenges in delivering a recyclable waste collection service in suburbs where there is high density living – multitude of flats, units, etc. The auditor recognised that the service was being delivered in a framework of overall sustainability, but that Council could not reach the targets set by the State Government. Overall, the auditor stated that the recycling service was being conducted appropriately and that there were no “high” or “significant” risks. The Committee was advised that there needed to be further Council discussions about the service and the targets.
- Compliance with the Council Road Management Plan – the Internal Auditor stated that in accordance with the *Road Management Act 2004*, Council is required to have a plan setting its maintenance standards and inspection regimes, and that Council is required to comply with its plan. The auditor raised four issues relating to process of inspections, monitoring of contractors compliance, tree inspection plan and timeframes to rectify road maintenance defects. The Committee requested that management report back after 30 September 2009 on the progress to implement the audit recommendations.
- Payroll Review – the Internal Auditor stated that the control framework for payroll was of a reasonable standard and that Council has strong reporting processes. The Committee

discussed matters relating to master file changes and approval of new employees. The Committee noted the report.

- 2008 External Audit Management Letter – the Committee received a copy of the 2008 Management Letter from the external auditor. An explanation was provided to the Committee about the purpose of the letter and the responsibilities of the external auditor. The Committee was advised that the audit recommendations in the letter have been addressed by Council management. The Committee requested that the external auditor be invited to the next meeting to outline the external audit strategy for 2009.
- 2008 Audit Committee Annual Report – the Committee was advised that the draft report would be updated with comments provided by the Chairperson and the matters considered by the Committee at the February 2009 meeting.

#### **4. CONSULTATION AND STAKEHOLDERS**

##### 4.1 Internal

- Council staff are invited to attend Audit Committee meetings or submit reports to address specific issues on the agenda.
- During 2008 the Mayor and Deputy Mayor were the Council representatives on the Audit Committee. The same representation will apply for 2009. The CEO is invited to attend meetings as a guest.

##### 4.2 External

- Where appropriate, the Audit Committee will invite representatives from external organisations, namely auditors, insurers, etc., to seek information and/or clarification on various matters.
- There are two external members on the Audit Committee, one being the Chairperson.
- Council's Internal Auditor attends all meetings of the Audit Committee and provides information and advice as requested.

#### **5. DISCUSSION**

##### 5.1 OPTIONS

- This report does not require any action by Council, it is provided for information of the Council.

##### 5.2 POLICY IMPLICATIONS

- This report is presented in accordance with the Terms of Reference of the Audit Committee and in response to a previous resolution of Council. The recommendation of this report has no impact on existing policy, nor does it create any new policy.
- The Terms of Reference of Council's Audit Committee can only be amended by a resolution of the Council.

- Council is required by section 139 of the Local Government Act 1989 to establish an audit committee as an advisory committee of the Council

**5.3 FINANCE / RESOURCE IMPLICATIONS**

- The 2008 Audit Committee Annual Report and the matters considered by the Audit Committee at its February 2009 meeting have no immediate resource implications.

**5.4 LEGAL & RISK IMPLICATIONS**

- One of the objectives of the Committee is “effective management of financial risks”. The approach by the Committee is that management is required to put in place internal controls to manage and minimise, or where possible eliminate, Council’s exposure to risk.

**5.5 SUSTAINABILITY ASSESSMENT**

**SOCIAL EQUITY**

Some of the matters dealt with by the Audit Committee are concerned about the well-being and safety of the community. The Risk Management project for example not only deals with risks, both financial and non-financial that directly impact upon Council, but is also designed to discover risks in the community over which Council may have some influence.

**ECONOMIC VIABILITY**

Audits undertaken by the Internal Auditor contain comments regarding cost issues that will come under the close scrutiny of the Audit Committee. Furthermore, the Audit Committee has in the past encouraged Council to question the relevance of the services it provides.

**ENVIRONMENTAL RESPONSIBILITY**

Where possible the Audit Committee will question staff about environmental impacts that may eventuate as a result of the activities of the Council.

**CULTURAL VITALITY**

The Audit Committee is concerned that the organization has in place processes that promote good corporate governance so that the operations of the Council are transparent, as well as, effective.

**6. IMPLEMENTATION STRATEGY**

N/A