

**ORDINARY MEETING OF COUNCIL
29 JANUARY 2008**

ORDER OF THE DAY

ORDER 3	AUDIT COMMITTEE 2007 ANNUAL REPORT & MEMBERSHIP
LOCATION/ADDRESS:	N/A
RESPONSIBLE EXECUTIVE DIRECTOR:	SALLY CALDER, EXECUTIVE DIRECTOR ORGANISATION SYSTEMS & SUPPORT
AUTHOR:	NORM MCCLELLAND, GOVERNANCE ADVISOR
FILE NO.:	34/04/27-03
ATTACHMENTS:	2007 AUDIT COMMITTEE ANNUAL REPORT

1. EXECUTIVE SUMMARY

- 1.1. To present to Council the City of Port Phillip Audit Committee Annual Report for 2007 and request Council address amendments to the Audit Committee Terms of Reference that are recommended in the Annual Report.
- 1.2. To bring to the attention of Council the matters discussed at the December 2007 meeting of the Audit Committee.
- 1.3. A copy of the Annual Report is attached.
- 1.4. The minutes of the December 2007 meeting have been circulated to all Councillors.
- 1.5. Mr Graham Lockwood, an external member of the Audit Committee, has resigned from the Audit Committee as at the end of 2007 after four years (two terms) on the Committee. Management has sought a replacement for the vacancy.

2. BACKGROUND

Reporting:

- 2.1. The City of Port Phillip Audit Committee Terms of Reference require that the Audit Committee report annually to Council, summarizing the activities for that year. The attached Annual Report encompasses the activities of the Audit Committee from January to December 2007.
- 2.2. Council resolved on 18 December 1996 that it be advised of all matters considered by the Audit Committee. This report also advises Council of all matters discussed at the meeting held on Wednesday 12 December 2007.

- 2.3. The Best Practice Guidelines for Local Government Entity Audit Committees and Internal Audit, November 1999, recommend:
- 2.3.1. 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
- 2.3.2. that Audit Committees should report annually to their Councils summarizing their activities.
- 2.4. 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.
- 2.5. 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.

Membership:

- 2.6. As previously mentioned Mr Lockwood announced that he would not be available for re-election as an external member of the Audit Committee after December 2007.
- 2.7. Following is an extract from the Audit Committee Terms of Reference regarding Committee membership:
1. *The committee will consist of:*
 - a. *The Mayor*
 - b. *The Executive Director Organisation Systems & Support*
 - c. *Two external members appointed by the Council*
 2. The external members will be selected from the 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.
 3. External members will be appointed for a two-year renewable term.
 4. The chairperson will be selected by the Council from the external membership.
- 2.8. Council management has reviewed three persons who could fill the vacancy and Council is requested to endorse management's recommendation.

3. CONTEXT

Reporting

- 3.1. Attached is the Annual Report of the Audit Committee for 2007. The report details the activities undertaken at its 5 meetings during the year including, a review and outcome of the internal audits conducted during 2007, the major issues addressed by the Committee and how the Committee fulfilled its responsibilities within its Terms of Reference.
- 3.2. The Audit Committee in its Annual Report has proposed that Council consider 3 amendments to the Committee's Terms of Reference. Council has previously requested that any proposed changes to an advisory committee's Terms of Reference be addressed through its annual report to Council.
- 3.3. The amendments proposed by the Audit Committee are:
- 3.3.1. to insert – that the quorum for a meeting of the Committee be 3 (the number for a quorum has been inadvertently omitted from the Terms of Reference);
- 3.3.2. to insert – that the Committee annually review:
- itself;
 - individual members of the Committee; and
 - the Internal Auditor;
- 3.3.3. to amend the membership – that the membership of the Committee will consist of:
- The Mayor
 - *Another Councillor* (to replace Executive Director)
 - Two external members appointed by Council
- 3.3.4. to insert an additional word (in italics) – The external members will be selected from the *broader* community and will have corporate management experience and exposure to financial risk management functions.
- 3.4. The change in the membership is proposed because it is unusual amongst other Councils for a member of Council management to be a member of an audit committee. Most Council audit committees consist of 2 externals and 2 councillors. Council is requested to consider if it wishes to appoint another Councillor to the Audit Committee.

- 3.5. Matters considered by the Audit Committee at its December 2007 meeting were:
- 3.5.1. **Annual Work Plan** - the Committee reviewed the 2007 Work Plan and noted that it had addressed all but one matter outlined in the Plan. The outstanding matter will be dealt with at the first meeting in 2008.
 - 3.5.2. **Internal Audit Program 2007/2008** – the Committee reviewed the program for 2007 and noted that only one audit had not been completed and that it would be presented to the first meeting in 2008.
 - 3.5.3. **Leave Accruals** - the Audit Committee received an update of the number of staff with excessive balances of accrued annual leave and noted that the number of staff with excessive leave balances traditionally reduces over the December/January period.
 - 3.5.4. **Investment Policy** – the Committee received a draft Investment Policy which had been developed by Council and reviewed by an independent specialist. The Committee was advised that the policy had been forwarded to the Treasury Corporation of Victoria for review. The Audit Committee noted that the policy is conservative with a relatively small amount of funds being exposed to equities. The Committee stated that it was comfortable with the proposed policy.
 - 3.5.5. **Business Continuity Planning** – the Committee received an update on the development of the business unit Business Continuity Plans.
 - 3.5.6. **Cash Handling Review** – the Committee requested information on administration of Cab Charge Vouchers, as well as, cash receipting at the South Melbourne Market. The Committee was advised that the Finance Department undertakes a review of Cab Charge usage on a monthly basis to look for unusual use. With respect to cash receipting at the Market, it was highly likely that manual receipting could be replaced by electronic receipting therefore removing the need for a stand alone cash register. The Committee is to receive further information on the cash receipting system.
 - 3.5.7. **Quarterly Management Report to Council** – the Committee received the September 2007 Quarterly Management Report to Council and the noted the actual financial performance to budget and the progress of capital works.
 - 3.5.8. **OH&S Annual Update** – the OH&S Officer provided the Committee with a report on the activities undertaken by the OH&S unit for 2007, including OH&S Work Plans, Worksafe Local Government Compliance Project, Workers Compensation premiums, Worksafe Week activities and OH&S initiatives. The Committee suggested that management should review the content of the OH&S information reported to Council.

- 3.5.9. **Assessment of Audit Committee Performance** – the Committee assessed its performance and determined that it should be continually considering how it could add value for the organisation.
- 3.5.10. **Audit Committee Annual Report 2007** – the Committee received the draft annual report for endorsement.

Membership

- 3.6. Council management has approached Ms Sue Pelka to be appointed as an external member of the Audit Committee. The following outlines some of Ms Pelka's work experience:
 - 3.6.1. Head of Governance, Risk and Compliance at ANZ's Shared Services Operations
 - 3.6.2. Previously Head of Strategic Sourcing – ANZ (goods and services procurement and management of major contracts, value \$1.6 billion)
 - 3.6.3. Trustee of the Melbourne Exhibition and Convention Centre – Chair of its Risk Committee and member of its Finance and Audit Committee
 - 3.6.4. Non-Executive Director of Superpartners Pty Ltd – member of its IT Board Committee and Audit Committee
 - 3.6.5. Member of Nillimbik Audit Committee.
- 3.7. Ms Pelka's experience makes her well qualified to act as a member of Council's Audit Committee.
- 3.8. It is proposed that Ms Sue Pelka be appointed as an external member of the Audit Committee for a period of two years, 2008 and 2009.

4. RECOMMENDED OPTION

Recommendation

- 4.1. It is recommended that Council:
 - 4.1.1. receive and note the 2007 Annual Report of the Audit Committee and adopt the proposed amendments to the Audit Committee's Terms of Reference;
 - 4.1.2. note the activities undertaken at the December 2007 meeting of the Audit Committee; and
 - 4.1.3. appoint Ms Sue Pelka as an external member of the Audit Committee for a period of two years, 2008 and 2009.

4.2. Sustainability assessment

Social Pillar	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 Pillar	Audits undertaken by the Internal Auditor usually do 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 Pillar	Where possible the Audit Committee will question staff about environmental impacts that may eventuate as a result of the activities of the Council.
Cultural Pillar	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.

4.3. Policy and legislative implications

- 4.3.1. 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.
- 4.3.2. The Terms of Reference of Council's Audit Committee can only be amended by a resolution of the Council.

4.4. Resource implications

- 4.4.1. The 2007 Audit Committee Annual Report and the matters considered by the Audit Committee at its December 2007 meeting have no immediate resource implications.

5. ALTERNATIVE OPTIONS

- 5.1.1. Council can consider an alternative replacement for the membership vacancy on the Audit Committee.
- 5.1.2. Council has the authority to determine the contents of the Audit Committee's Terms of Reference and therefore is able to determine the make-up of the membership of the Committee.

6. PARTICIPATION AND ENGAGEMENT

6.1. Internal

- 6.1.1. Council staff are invited to attend Audit Committee meetings or submit reports to address specific issues on the agenda.
- 6.1.2. During 2007 the Mayor and Executive Director Organisation Systems and Support were the Council representatives on the Audit Committee. The CEO was invited to attend meetings as a guest.

6.2. External

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

7. CONCLUSION

- 7.1. The Audit Committee will continue to:
 - 7.1.1. respond to requests for advice from Council;
 - 7.1.2. review all matters that it considers to be within its Responsibilities and Terms of Reference; and
 - 7.1.3. report to Council annually, as well as, advise Council about its activities.

8. RECOMMENDATION

- 8.1. That Council receive and note the 2007 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.
- 8.2. That Council adopt the following amendments to its Terms of Reference as recommended by the Audit Committee in its 2007 Annual Report:
- 8.2.1. to insert – that the quorum for a meeting of the Committee be 3;
- 8.2.2. to insert – that the Committee annually review:
- itself;
 - individual members of the Committee; and
 - the Internal Auditor;
- 8.2.3. to amend the membership – that the membership of the Committee consist of:
- the Mayor
 - another Councillor
 - two external members appointed by Council
- 8.2.4. to insert an additional word (in italics) – The external members will be selected from the *broader* community and will have corporate management experience and exposure to financial risk management functions.
- 8.3. That Council receive and note the report outlining the matters considered by the Audit Committee at its December 2007 meeting, including issues such as the annual work plan, the internal audit program, excessive leave accruals, the OH&S annual update, Cab Charge administration, cash receipting at the South Melbourne market, the September 2007 CEO Quarterly Report to Council and the draft Annual Report to Council.
- 8.4. That Council endorse the appointment of Ms Sue Pelka as an external member of the Audit Committee for the calendar years 2008 and 2009.