

STRATEGY AND POLICY REVIEW COMMITTEE
4 AUGUST 2008 **GOVERNANCE AND COMPLIANCE**

A6 **AUDIT COMMITTEE ACTIVITIES UPDATE**
LOCATION/ADDRESS: **N/A**
RESPONSIBLE EXECUTIVE DIRECTOR: **SALLY CALDER, EXECUTIVE DIRECTOR**
ORGANISATION SYSTEMS AND
SUPPORT
AUTHOR: **NORM MCCLELLAND, GOVERNANCE**
ADVISOR
FILE NO.: **34/04/29-02**
ATTACHMENTS: **NIL.**

1. EXECUTIVE SUMMARY

- 1.1. To bring to the attention of Council the matters discussed at the June 2008 meeting of the City of Port Phillip Audit Committee.
- 1.2. The minutes of the June 2008 meeting have been circulated to all Councillors.

2. BACKGROUND

- 2.1. Council resolved on 18 December 1996 that it be advised of all matters considered by the Audit Committee. This report advises Council of all matters discussed at the meeting held on Wednesday 11 June 2008.
- 2.2. The Best Practice Guidelines for Local Government Entity Audit Committees and Internal Audit, November 1999, recommend:
 - 2.2.1. 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
 - 2.2.2. that Audit Committees should report annually to their Councils summarizing their activities.
- 2.3. 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. CONTEXT

- 3.1. Matters considered by the Audit Committee at its June 2008 meeting were:
- 3.1.1. **Annual Work Plan** - The Committee received the Annual Work Plan for 2008 and noted that it was up to date with the schedule of work set down in the plan.
 - 3.1.2. **Internal Audit Program** – The Committee received the 2008 Internal Audit Program and was advised that the field work was still being undertaken for the IT Systems and Control Review, and that the field work for the OH&S Review of both staff and contractors had been completed and the report would soon be forwarded to management for comment. The Committee was advised that both audits should be available for the next meeting.
 - 3.1.3. **South Melbourne Market Cash Receipting** – The Committee discussed the delay in the testing of the cash receipting system and requested a further report on the implementation process for the next meeting.
 - 3.1.4. **Excessive Annual 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 May 2008. The Committee noted that the movement in the accruals seemed to be seasonal and requested that future reports contain a comparison of the previous year's figures for the same period. The Committee also requested that individual staff with excessive accruals be identified. A further report will be provided for the next meeting.
 - 3.1.5. **Condition Assessment of Drains** – The Committee addressed this matter whilst the External Auditor was in attendance. The Committee was advised that a condition assessment of drains was undertaken by closed circuit television examination. The City has approximately 200kms of drains and an assessment was carried out on 2% of the network (approximately 4kms). A mix of drains were assessed – different locations, different aged drains and different construction materials. The cost to assess 2% of the network was approximately \$50,000. The Committee was advised that the consultants estimated the life of the asset to be 185 years, however, as the survey sample was small it was decided to adopt a conservative 150 year life span for the current revaluation exercise.
 - 3.1.6. **Chief Executive Officer's Issues** – The Committee received the March 2008 Quarterly Management Report to Council. The CEO also made comment on the recent media reports relating to Corporate Power. The Committee was also advised that submissions to the 2008/2009 Council Budget had closed and that three submissions were received, and that the community was given the opportunity to get involved in the budget process as two public briefings were conducted about the budget.

- 3.1.7. **2007/2008 External Audit Strategy** – Council’s External Auditor and representative of the Auditor-General, attended the meeting to discuss the 2007/2008 audit strategy. The Auditor advised the Committee that Port Phillip was a “low” risk council with respect to external audit, however, the revaluation of drainage assets remained a concern. The Auditor advised that the review would focus on:
- fair value assessment of assets
 - impairments of assets
 - parking debtors and the level of the provision of doubtful debts to ensure the provision is adequate
 - the level of employee benefits and the split into current and non-current (also a review of the age of the workforce to determine future cash outflows)
 - superannuation with a view to a re-evaluation of the council liability
 - internal audit reports relating to financial controls
 - recent issues reported in the media
- The External Auditor also advised that a standard was being developed for the treatment of land under roads. The External Auditor advised that he would attend the Audit Committee meeting on 27 August at which the Committee considered the accounts prior to “in principle” adoption by the Council.
- 3.1.8. **Attestation of Compliance** – The Committee discussed how major legislative non-compliance was to be reported and at what intervals. The Committee was advised that management is developing a compliance report pertaining to Contracts, KPI’s, Risk, Human Rights, EO and OH&S. The Committee was advised that it could be provided with a verbal update on compliance at each Audit Committee meeting and that a detailed written report would be provided annually. The Committee agreed to this commitment.
- 3.1.9. **Auditor-General’s Report on Local Government Results of the 2006/2007 Audits** – The Audit Committee received a copy of the above report and acknowledged that Port Phillip performed well.
- 3.1.10. **Audit Committee Self Evaluation** – The Chair circulated two self-assessment tools and stated that he would revamp one of the tools in line with the Committee’s charter and present it to the Committee for consideration and use of a self-assessment tool.

4. RECOMMENDED OPTION

4.1. Recommendation:

It is recommended that the Strategy and Policy Review Committee recommend to Council to receive and note the report outlining the activities undertaken at the June 2008 meeting of the Audit Committee.

5. 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 organisation has in place processes that promote good corporate governance so that the operations of the Council are transparent, as well as, effective.

5.1. Policy & Legislative Implications

- 5.1.1. 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.
- 5.1.2. 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.

5.2. Resource implications

- 5.2.1. The matters considered by the Audit Committee at its June 2008 meeting have no immediate resource implications.

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 2008 the Mayor and the Deputy Mayor are the Council representatives on the Audit Committee. The CEO, the Executive Director Organisation Systems and Support and the Manager Finance and Investments are invited to attend meetings as guests.

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 after each meeting.

8. RECOMMENDATION

- 8.1. That the Strategy and Policy Review Committee recommend to Council to receive and note the report outlining the matters considered by the City of Port Phillip Audit Committee at its June 2008 meeting, including issues such as the annual work plan, the internal audit program, excessive leave accruals, South Melbourne Market cash receipting, condition assessment of drains, CEO's issues, 2007/2008 external audit strategy, attestation of compliance and the Auditor-General's Report on Local Government Results of the 2006/2007 Audits.