



**GEORGES
RIVER
COUNCIL**

ANNUAL REPORT TO COUNCIL of the
AUDIT, RISK & IMPROVEMENT
COMMITTEE and INTERNAL AUDIT

1 January to 31 December 2018

Background

The Audit, Risk and Improvement Committee of Georges River Council commenced with its current independent committee membership in October 2016, replacing the former Audit and Risk Management Committee. The Committee appointed three (3) independent members:

- Mr John Gordon (Chair), appointed October 2016 to October 2019
- Ms Elizabeth Gavey, appointed October 2016 to October 2019
- Mr Stephen Horne, appointed October 2016 to October 2018 with a recent reappointment by Council on 10 September 2018 for the period to 30 June 2021.

The intention of establishing the Committee in this format was to reflect the new *Local Government (Planning and Governance) Amendment Act 2016* which mandates the requirement for an Audit, Risk and Improvement Committee and specifies their responsibilities. While the legislation does not take effect until March 2021, Georges River Council took a proactive position to further support a sound governance framework and to provide greater assurance around Council's activities.

The Committee operates under the Audit, Risk and Improvement Committee Charter (ARIC or Committee) which reflects the guidelines provided by the NSW Office of Local Government and industry best practice. The Charter was adopted by Council on 1 May 2017, including the new legislative responsibilities.

In October 2017, two councillors were appointed to the Committee. These are:

- Councillor Christina Wu
- Councillor Warren Tegg

Internal Audit Function

Concurrently, with the merger of the former Hurstville and Kogarah Council's into Georges River Council, a position of Internal Auditor was allotted in the new organisational structure. This position is aimed at supporting the Audit, Risk and Improvement Committee and providing a systematic, disciplined approach to evaluating and improving Council operations by way of a executing a risk-based Audit Plan and in the provision of advice. The role of Internal Auditor was held by Mr Tony Gearon until his retirement in April 2018. Mr Gearon was replaced through the appointment of Ms Juliette Hall an experienced Internal Audit practitioner previously serving with Sutherland Shire Council.

In addition to the Manager, the Internal Audit Function has the facility to engage experienced contractors to undertake selected reviews and internal audits, overseen by the Internal Audit Manager.

ARIC Responsibilities

The ARIC functions under the auspice of the Audit, Risk and Improvement Committee Charter (Charter) which in turn reflects the legislation. The primary role of the Committee is contained in the Charter:

The primary role of the Audit, Risk and Improvement Committee of the Georges River Council is to advise Council on Audit, Governance, Risk Management and Business Improvement related matters, policy and strategies, within the Committee's capabilities and working to an Audit Plan that encourages good governance, External and Internal Audit, and attention to Business Improvement, also providing independent, objective assurance about the effectiveness of Council's risk mitigation controls.

The Charter contains a number of administrative requirements but also establishes the main responsibilities of the Committee into broad categories.

These are:

- Compliance
- Risk Management
- Fraud Control
- Financial Management
- Governance
- Service Reviews
- Implementation of the strategic plan, delivery program and strategies
- Collection of performance measurement data

In August 2018, the Committee adopted a forward responsibility meeting plan that ensures coverage of these responsibility areas over a twelve month period. Committee meeting agendas are divided into these categories with specific topics under each.

Purpose of this report

The purpose of this report is tabled under Clause 5.1 of the ARIC Charter which requires that:

The Committee through the Chairperson shall submit and present on an annual basis, a formal report to Council outlining the Committee's major achievements, issues identified and other relevant matters, to a closed session of a Council meeting.

As the Committee's achievements are closely linked to the Internal Audit activities, it is appropriate that both are recounted in the same report.

The report will include the following matters:

1. Details of ARIC meetings held during the year
2. Achievements of ARIC to discharge its functions and responsibilities during the year
3. A summary of the ARIC's assessment of its primary responsibilities
4. The Internal Audit Plan and audits conducted
5. Other audit activities undertaken
6. Future requirements affecting the Internal Audit function and ARIC.

1. Details of ARIC meetings held during the year

The Committee held four (4) normal meetings during the year and one special meeting for the review and endorsement of the financial statements (24 October 2018).

Attendance/Meeting Date				
12 February 2018	4 June 2018	6 August 2018	24 October 2018 (Special Finance Meeting)	29 October 2018
<u>Independents</u>				
John Gordon	Attend	Attend	Attend	Attend
Elizabeth Gavey	Attend	Attend	Attend	Attend
Stephen Horne	Attend	Attend	Attend	Attend
<u>Councillors</u>				
Christina Wu	Attend	Attend	Attend	Attend
Warren Tegg	Attend	Attend (Part)	Apology	Attend
<u>External Audit</u>				
NSW Audit Office	Apology	Apology	Attend	Apology
External Audit Contractor (Hill Rodgers)	Apology	Attend	Attend	Attend
** Note: External Audit are invited to attend all meetings though, they are not required to attend				
<u>Key Staff</u>				
General Manager	Attend	Attend	Attend	Attend
Internal Auditor	Attend	Attend	Attend	Attend

2. Achievements of ARIC to discharge its functions and responsibilities during the year

The Committee reviewed all responsibility categories required by the Charter over the course of the year. This was facilitated by the adoption of a Forward Responsibility Calendar in August 2018, which reflects the requirements of the Charter and Legislation, allocating the varying responsibilities to nominated meetings across a 12 month period to ensure complete coverage.

Key achievements include:

- Adoption of a risk-based Audit Plan 2018-2021
- Oversight of the development of Risk Management, Compliance and Governance Frameworks within a merger council arrangement
- Adoption of the Forward Responsibility Meeting calendar 2018-2019
- Development of more robust and targeted meeting agendas
- Ability to perform an early review of Interim Financial Statements at August 2018 meeting
- Through the Chair, providing input to the process for recruiting a new Internal Auditor
- Transition of retiring Internal Auditor to newly recruited Internal Auditor in May 2018
- Coverage of all responsibility requirements across the 2018 year
- Received presentations on relevant topics from responsible staff at Committee meetings
- Oversight of Council improvements in the areas of risk management, audit planning, financial management and service reviews.
- Review of findings from Internal Audit reports on the following topics:
 - Works Depot and Stores System Review
 - Cash Management, Handling, Banking and Investments
 - Technology One Systems Implementation Project
- Follow-up of recommendations from Internal and External Audit reports.
- Review and endorsement of the Financial Statements for the year ended 30 June 2018.
- Review of findings from reports presented by the External Auditors.
- Conducting “in-camera” meetings with External Auditors and Internal Auditor without the presence of management.
- Completion of a performance review of the Committee for the 2018 year and follow-up of ideas for improvement.

The table below provides a summary of responsibility areas covered at each meeting and throughout the period.

Responsibility Area	ARIC Meetings 2018				
	12 February	4 June	6 August	24 October-Special Financial Meeting	29 October
Compliance	Code of Conduct & Public Interest Disclosures Reporting	Code of Conduct & Public Interest Disclosures Reporting	Code of Conduct & Public Interest Disclosures Reporting		Code of Conduct & Public Interest Disclosures Reporting
					Data Breach Reporting
Risk Management	Enterprise Risk Strategy	Risk Register Review	Risk Framework Project		Enterprise Risk Management Framework
					Business Continuity/Disaster Recovery
Fraud Control	Fraud & Corruption Control Plan	Fraud Corruption Review	Fraud & Corruption by exception		Fraud & Corruption Reporting
Governance	Councillor Expense Claims	Councillor Expense Claims	Councillor Expense Claims		Councillor Expense Claims
	Audit Recommendation Status	Audit Recommendation Status	Audit Recommendation Status		Audit Recommendation Status
			Governance Update		Agency Updates

Financial Management	External Audit	External Audit	External Audit	External Audit	External Audit
		Client Service Plan	Draft Financial Statements	Final audited Financial Statements	L-T Financial Plan & Ratios
		Management Letter 2017	Interim Management Letter 2018	Client Service Report	External Audit Recommendations Status
		EFTSure Accounts Payable			
		Draft Asset Accounting Policy			
Strategic Plan, Delivery Program & Strategies	General Manager Update	General Manager Update	General Manager Update		General Manager Update
	Forward Procurement Plan		Audit Industry Trends & Information		Audit Industry Trends & Information
					Community Service Delivery Results
Service Reviews	Cash Handling	Cyber Security	TechOne Implementation		IT Security
	Stores System & Works Depot		Service Delivery Program		
	TechOne Implementation Scope		Internal Audit Plan 2018-2021		

			NSW Audit Office Performance audits		
Performance Measurement Data	Procurement Spend Analysis				
Administration	ARIC Performance Survey	ARIC Performance Review	ARIC Performance Results		
		Internal Audit Budget & Resourcing	Annual Declarations of Interest		Internal Audit Budget & Resourcing
			Independent Member Tenure Extension		
			Committee Actions List		Committee Actions List
			Forward Responsibility Calendar		

3. ARIC assessment of key responsibility areas

The Committee has assessed the key responsibility areas as follows:

Responsibility	Assessment
Compliance	Specific areas of compliance well established including work health safety, financial reporting. Council-wide compliance risk framework remains under development.
Risk Management	ERM is under development and at an emergent level of maturity.
Fraud Control	This area needs to be re-visited in context of the AONSW fraud risk assessment checklist.
Governance	Governance processes developing.
Financial Management	Management has largely overcome considerable issues in merging two legacy council systems. Further follow-up required to achieve optimal systems.
Strategic Plan, Delivery Program & Strategies	This will be reviewed in 2019 as the ARIC focuses on performance and improvement.
Service Reviews	As above.
Performance Measurement Data	As above.
OVERALL	Council has worked diligently to address the challenges from the amalgamation and in establishing sound governance practices. The ARIC expects there will be continued progress in 2019.

4. The Internal Audit Plan and audits conducted

During 2018, the Audit Plan was completely revised, covering the period 2018-2021. This was endorsed by the Executive Team and the ARIC in August 2018. The new Audit Plan commenced in September 2018.

Audits completed in 2018 prior to the Audit Plan revision include:

- Works Depot and Stores System Review
- Technology One Systems Implementation Project

Audits completed or due for completion after the Audit Plan revision include:

Audit	Financial Year Quarter	Insourced/ Outsourced	Status
Purchasing – policy, processes, execution, compliance	2	Insourced	Completion: Dec 2018 ARIC Report: Feb 2019
Footpaths & Asphalt Contracts – contract selection, controls, monitoring & management	2	Outsourced	Completion: Nov 2018 ARIC Report: Feb 2019
ICAC Development Assessment Internal Audit Tool	2-3	Outsourced	Completion: Nov 2018 ARIC Report: Feb 2019
ICAC Investigation Outcomes (Operation Dasha)	2-3	Insourced	ICAC Report not yet released
Accounts Payable – policies, processes and controls	3	Insourced	Expected commencement: Dec 2018
Section 94 Income – calculation accuracy, monitoring & recovery	3-4	Outsourced	Expected commencement: Dec 2018

5. Other audit activities undertaken

The following other audit activities have been performed by the Internal Auditor during the period:

- Development of Council's revised Internal Audit Plan 2018-2021
- Development of an Assurance Map to complement the Audit Plan
- Development of a Forward Responsibility Calendar containing all Charter and Committee responsibilities
- Implementation of a more robust meeting agenda and minute recording protocol
- Improvements to the Audit, Risk and Improvement Committee Portal for accessing Committee papers and information
- Robust distribution of relevant information from agencies including ICAC, OLG, NSW Audit Office and others to both staff and Committee members
- Robust follow up of outstanding audit recommendations
- Development of a more efficient and streamlined system for recording and follow up of audit recommendations
- Provision of advice corporately on a number of topics
- Facilitation and investigative work on behalf of the General Manager
- Committee secretariat functions
- Performance of duties as an Executive Member of the Local Government Internal Auditors Network (LGIAN)
- Coordinated responses to and action required in relation to recommendations relating to the NSW Audit Office performance audits and ICAC investigations

6. Future requirements affecting the Internal Audit function and Audit, Risk and Improvement Committee.

The Office of Local Government (OLG) will be issuing a discussion paper on the Internal Audit Framework for NSW Local Government in late 2018.

The intent of this is to provide more guidance around the new legislation and greater onus on Council's to have a mandatory internal audit function and Audit, Risk and Improvement Committee with specific conditions and requirements.

Georges River Council has already pre-empted many of the likely requirements and is in a good position to adjust to other as required by the 2021 deadline.

In addition, the NSW Audit Office is becoming more robust and targeted in the conduct of its financial and performance audits, since becoming the external auditor for local government in NSW in 2016.

Council has worked cooperatively with the NSW Audit Office with their being a regular invitee to all Committee meetings. It is anticipated that this cooperative relationship will continue in to the future. The NSW Audit Office has advised Councils of their areas of focus for both financial audits and performance audits in 2019.

Conclusion

The Internal Audit function has implemented a number of changes during the period in preparation for the future requirements of the Office of Local Government and the Audit Office of NSW. The function has also assisted ARIC in providing a more disciplined and robust approach to coverage of responsibilities. The Internal Audit Plan 2018-2021 has commenced and is considered very ambitious but achievable.

The ARIC has fulfilled its responsibilities under the Audit, Risk & Improvement Committee Charter for the period and has a plan to continue to do so, via the adoption of a rolling forward responsibility calendar. The Committee has operated cooperatively to provide feedback and assurance to management and Council.

I would like to take this opportunity to thank my fellow Committee members, management and staff and the external audit team for their forthrightness and cooperation in the operation and outcomes of the Committee during 2018.

John Gordon
Chair, Georges River Council
Audit, Risk and Improvement Committee
October 2018