



Shellharbour City Council

Business Paper

18 April 2023

Ordinary Council Meeting

Attachment to Item no. 10.1.3
Audit Risk and Improvement Committee
Chairpersons Report

**Attachment 1. Independent Chairpersons
Report**

Subject Audit, Risk and Improvement Committee (ARIC) – Chairperson’s Annual Report to Council 2022

To the Mayor and Councillors

Author: Julie Walton – ARIC Chairperson and Independent Member

Summary

The purpose of this report is to provide Council with the annual Chairperson’s report on the activities of Council’s Audit, Risk and Improvement Committee (ARIC) for the financial year 2021 – 2022.

Background

The Shellharbour City Council first established its Governance, Risk & Audit Committee in 2010. In September 2021 Council changed the Committee’s name to the Audit Risk and Improvement Committee to align it with the *Local Government Act 1993* and the draft Risk Management and Internal Audit Framework issued by the Office of Local Government. The Chair has an obligation to report annually to Council the Committee’s assessment in relation to its objectives.

1. Objective and responsibilities

The objective and responsibilities of the Audit, Risk and Improvement Committee (ARIC) current during the 2021-22 financial year are as set out in its Charter [attached] [Note: new Terms of Reference for the ARIC were endorsed by ARIC in March 2022 and will be formally adopted by Council and the Committee once the OLG Draft Guidelines as adopted]

The objective of the ARIC is to provide independent scrutiny, assistance and formal advice to the Shellharbour City Council on:

- Risk management;
- Internal controls;
- Governance;
- External accountability.

In carrying out its responsibilities in the financial year 2021 – 2022, the Committee has at all times recognised that primary responsibility for management of Council and all staff rests with the Council and the Chief Executive Officer.

2. Membership

In the period the ARIC had five (5) members, three independent members and two Councillors:

Independent Chair: Ms Julie Walton (appointed March 2016)

Independents: Ms Yvette Pietsch (appointed June 2017)

 Mr Anthony Gearon (appointed June 2018)

The *Local Government Amendment (Governance and Planning) Act 2016* requires Councils to appoint an Audit, Risk and Improvement Committee (ARIC), and widens their responsibilities. The legislation is intended to be supported by a new risk management and internal audit framework issued by the OLG. The final version of these guidelines has not yet been issued.

Among the changes foreshadowed is the removal of provision for the appointment of Councillors as members of the ARIC. In anticipation of this change, the ARIC does not currently include Councillor members, but Councillors may attend ARIC meetings in a non-voting capacity.

Risk Management

Risk management framework

The Committee is required to *review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of business and financial risks, including fraud and corruption* (Charter Clause 4.1)

Council adopted a policy for the management of Council's risks in July 2020, due for review in July 2023.

In the financial year 2021– 2022 a range of matters on the ARIC agenda were relevant to this clause of its Charter. The ARIC:

- Considered quarterly reports on Strategic and Emerging Risks by Council's Risk and Audit Manager (on every agenda);
- Received a quarterly update on the activities of the Risk and Audit Team (on every agenda); including a report on emergency management, workplace health and safety incidents and risk management; and workers compensation claims and premiums;
- Reviewed the rolling internal audit program (March 2022 Item 9) and monitored its implementation;
- Noted that Council has recently engaged Centium to run a Strategic Risk Review Workshop with the Senior Management Team (15 June 2022).

ARIC has determined that it is satisfied that management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of business and financial risks, including fraud and corruption (16 March 2022).

Fraud and corruption prevention plan

The Committee is required to *review whether Council has a sound and effective plan in place for the prevention of fraud and corruption* (Charter Clause 4.1).

The finalisation of a policy and framework for the prevention of fraud and corruption was reported to Council last year. This outcome was delivered with the assistance of CivicRisk Mutual and InConsult. The next step is the

development of the fraud and corruption plan which will set out the actions required to deliver on the policy and framework.

In October 2022 ARIC was advised that Council remains focussed on implementing the ten attributes from the Fraud Control Improvement Kit prepared by the Audit Office NSW. The Fraud and Corruption Framework and Policy is due for review by June 2023.

The ARIC is satisfied that Council has in place a sound and effective plan for the prevention of fraud and corruption and endorses review of the Policy by June 2023.

Risk management plans for major projects or undertakings

The Committee is required to *review whether a sound and effective approach has been followed in developing risk management plans for major projects or undertakings* (Charter Clause 4.1).

In the financial year 2021 – 2022 the Committee considered a report advising it of Council's processes for managing risks associated with major projects (October 2021). A recent improvement includes the implementation of Council's Project Management Framework (PMF) (16 March 2022, 15 June 2022). The PMF provides Council with a more systematic approach to all types of projects including the development of risk management plans when appropriate or required.

ARIC noted that the Project Management Framework function has recently been transferred into the Organisational Performance Group and an additional resource has been recruited to assist with the implementation and embedding of the framework across the organisation.

ARIC is satisfied on the basis of these reports and a briefing by management, that Council has followed a sound and effective approach in developing risk management plans for major projects or undertakings.

Review of impact of organisation's risk management process on its control environment and insurance arrangements

The Committee is required to *review the impact of the organisation's risk management process on its control environment and insurance arrangements* (Charter Clause 4.1).

In the financial year 2021 – 2022 ARIC received several internal audit reports that recommended improvements to the Council's control environment, and ARIC tracked the progress of implementation of those recommendations. Some improvements might reasonably be expected to have a positive impact on insurance premiums, but ARIC does not have the data to enable a firm view to be formed.

The ARIC has however been advised that the focus on WHS issues increased significantly in the context of restrictions relating to Covid-19. One outcome was the implementation of safer systems of work across the organisation.

As noted above, the ARIC receives a quarterly update on the activities of the Risk and Audit Team (on every agenda); this update includes a report on workplace workers compensation claims and premiums. On 16 March 2022 ARIC was advised of a trend (at the time) toward reductions in the total number of hours lost and the number of claims. This trend if continued should have a positive impact on insurance arrangements.

ARIC resolved that it is satisfied that a review of the impact of the organisation's risk management processes on its control environment and insurance arrangements has been completed.

Business continuity planning, disaster recovery

The Committee is required to *review whether a sound and effective approach has been followed in establishing business continuity planning arrangements, including whether disaster recovery plans have been periodically tested* (Charter Clause 4.1).

At its meeting on 16 March 2022 the ARIC considered a report from management on this issue (Item 6.2), which noted that Council's Business Continuity Plan was last reviewed and updated in December 2021. The ARIC was satisfied that a review has indicated that a sound and effective approach has been followed in establishing business continuity planning arrangements, including periodic testing of disaster recovery plans.

Overall assessment – Risk Management

In the financial year 2021 – 2022, ARIC observed continuous improvement in Council's risk management framework and procedures. One important factor is the linkage reported to us between the risk management, business improvement and IT areas.

Credit for this progress is due to Council's former Risk Manager, Ian Smith. ARIC members greatly appreciate his commitment and his diligence in supporting the work of the ARIC.

Control framework

Internal controls

The ARIC is required to *review whether management has adequate internal controls in place, including over external parties such as contractors and advisors* (Charter Clause 4.2)

In the financial year 2021 – 2022 the Committee reviewed the adequacy of the Council's internal controls, primarily through consideration of internal audit reports. The Committee also considered the Management Letter provided by the external auditor (the NSW Audit Office), which advises Council of any internal control weaknesses that come to its attention in the course of the annual financial audit.

ARIC was also advised of internal controls of particular relevance to contractors, including normal tender and EOI processes, and requirements that contractors produce evidence of their management systems, professional

expertise, qualifications and insurance cover prior to commencing work with Council.

ARIC considered the information presented and is satisfied on that basis that management has adequate internal controls in place, including over external parties such as contractors and advisors.

2.1. Identification of required changes to internal controls

The Committee is required to *review and consider how management identifies any required changes to the design or implementation of internal control* (Charter Clause 4.2).

In the financial year 2021 – 2022 ARIC received a report outlining the methods used by Council to identify any required changes to the design or implementation of internal controls (8 June 2022 report item 8.6). Internal controls are reviewed:

- as part of internal audits and control self-assessments.
- as part of incident investigations or when complaints are received

Project specific or routine risk assessments are also utilised to measure the effectiveness of internal controls. Significant legislative changes can also initiate a review of internal controls.

Council's Executive Leadership Team (ELT) review the internal controls for their strategic and emerging risks on a quarterly basis to ensure they remain effective. The process also helps to identify additional controls to be implemented.

ARIC considered the information provided and on that basis is satisfied that management has systems in place to identify any required changes to the design or implementation of internal controls.

2.2. Policies and procedures

The Committee is required to *review whether management has in place relevant policies and procedures, and whether these are periodically reviewed and updated* (Charter Clause 4.2).

In past years the timely review of policies has been an issue raised by ARIC and the considerable effort put into resolving it has produced what appears to be long-term improvement. In the financial year 2021 – 2022 ARIC considered a report outlining the use of the PULSE system and the process mapping system Promapp (15 June 2022 item 8.3). These systems are used to store and manage Council's policies and procedures.

ARIC was also advised that Council's Executive Leadership Team (ELT) receives fortnightly reports from the Governance team on the status of Council policies. We were advised that this has resulted in a renewed focus on Council's governing documents and has assisted the ELT to ensure the review of policies

in a timely manner, and that responsible officers are accountable for updating their policies and procedures in accordance with the schedule.

ARIC noted the information presented by management and determined on that basis that it is satisfied that management has in place relevant policies and procedures, and that these are regularly reviewed and updated.

2.3. Compliance with policies and procedures

The Committee is required to *progressively review whether appropriate processes are in place to assess compliance with policies and procedures* (Charter Clause 4.2).

In the financial year 2021 – 2022 ARIC considered a report outlining the processes used to assess compliance with policies and procedures (15 June 2022 item 8.4). They include:

- Internal Audit Plan
- Reviews initiated by complaints and investigations, and in some instances by customer requests
- Reviews requested by the Executive Leadership Team

We were advised that Council's Risk and Audit Manager will work closely with the Business Improvement Coordinator to identify and implement new processes that help council to assess compliance with policies and procedures. ARIC has in previous years indicated that it regards this co-operative approach as a potentially fruitful maturation of Council's processes.

ARIC noted the information presented by management, and on that basis determined that it is satisfied that appropriate processes are in place to assess compliance with policies and procedures.

2.4. Management and exercise of delegations

The Committee is required to *review whether appropriate policies and procedures are in place for the management and exercise of delegations* (Charter Clause 4.2).

ARIC noted that a full review of delegations will be undertaken within 12 months of the election held on 4 December 2021, in accordance with the Act (15 June 2022 item 8.5 report)

In the financial year 2021 – 2022 it considered updates on the use of the Pulse System which acts as a register of delegations and serves as a tool for the acknowledgement and tracking of delegations. ARIC noted Council's intention to consult with the software provider to ensure that Council is utilising all functionality of the system.

ARIC considered the information provided by management and on that basis is satisfied that appropriate policies and procedures are in place for the management and exercise of delegations.

2.5. Overall assessment – control framework

The ARIC is pleased that a range of measures are used by Council to facilitate steady improvement of Council's internal control system continues to show. As noted last year, the greater integration of audit recommendations for improvements with improvements suggested by the Business Improvement Team (using the ProMapp system) has the potential to take Council further towards best practice.

Governance

Embedding of a culture committed to ethical and lawful behaviour

The Committee is required to *review whether management has taken steps to embed a culture which is committed to ethical and lawful behaviour* (Charter Clause 4.2).

In the financial year 2021-22 [December 2021] ARIC received a report indicating that a number of steps have been taken and continue to be taken to embed a culture committed to ethical and lawful behaviour. They included:

- a leadership program for managers to assist in creating a culture of “doing what is right”.
- articulating its core values and core corporate behaviours to strengthen and reinforce an ethical culture across the organisation.
- The implementation and ongoing awareness of policies such as the Code of Conduct, Gifts and Benefits, Protected Interest Disclosures, Information Technology Acceptable Usage, Positive Working Relationships and Acceptable Workplace Behaviour and Prevention of Fraud and Corruption Policy.

Based on the information provided by management ARIC is satisfied that management has taken steps to embed a culture which is committed to ethical and lawful behaviour (15 December 2021).

Legal and compliance risks

The Committee is required to *determine whether management has appropriately considered legal and compliance risks as part of the organisation's risk assessment and management arrangements* (Charter Clause 4.4).

An issue faced by all local councils has been the difficulty of capturing a large number of legislative requirements and keeping abreast of changes.

In the financial year 2021 – 2022 ARIC considered a report outlining the role of the PULSE system and other means of addressing legal and compliance risks. 16 March 2022 item 6.2

On this basis the ARIC is reasonably satisfied that management has appropriately considered legal and compliance risks as part of the organisational risk assessment and management arrangements.

Monitoring of legislative compliance

The Committee is required to *review the effectiveness of the system for monitoring compliance with applicable laws and regulations, and associated government policies* (Charter Clause 4.4).

The program of internal audit assists in monitoring compliance with laws and regulations and associated government policies, as well as compliance with Council's own policies.

In addition, in the financial year 2021 – 2022 ARIC considered regular reports relevant to compliance monitoring actions. Governance update reports include a section that reviews compliance with key legislation and Policies such as those imposed by the Government Information (Public Access) Act 2009 (GIPA Act). It was noted that Governance is also progressing systems that could be used by Council to assist with legislative compliance (15 June 2022 item 8.7).

ARIC considered the information provided and on that basis it is satisfied that Council has in place an effective system for monitoring compliance with applicable laws and regulations and associated government policies.

Overall assessment – legislative compliance

In the financial year 2020-2021 the ARIC observed continuing improvement in the effectiveness of Council's system for considering legal and compliance risks, and monitoring compliance with applicable laws and regulations and associated government policies. This process of continuous improvement has continued in 2021-2022.

Internal Audit

Appointment of the Internal Auditor

The Committee is required to *assist in the appointment of the Internal Auditor, by participating as a member of any panel which is responsible for the review of internal audit tenders and recommendations to Council, on appointment* (Charter Clause 4.5).

In the financial year 2021 to 2022 the Committee was not called on to assist in the appointment of the Internal Auditor.

Internal Audit Plan

The Committee is required to *review the internal audit plan coverage and Internal Audit Plan, ensure the plan has considered the Risk Management Plan, and approve the plan* (Charter Clause 4.5).

Internal audit reports are an integral element of Council's risk management process. In the financial year 2021 to 2022 ARIC reviewed the internal audit plan coverage and Internal Audit Plan. The Internal Audit Plan has been developed using a risk-based approach to ensure those areas with the greatest risk exposure are audited first.

Management reported on the actions taken to get the program of internal audit back on track, as there was some slippage in the last year due to COVID restrictions on access to council's offices.

The ARIC is satisfied with the current rolling program of internal audits, which involves four internal audits every year and a separate annual audit of the Shell Cove project.

Adequacy of internal audit resources

The Committee is required to consider *the adequacy of internal audit resources to carry out its responsibilities, including completion of the approved Internal Audit Plan* (Charter Clause 4.5).

In the financial year 2021 to 2022 the Committee was briefed at each meeting on the work undertaken by the Risk Assessment team. No difficulty in the availability of resources to complete the internal audit program was reported. The additional annual audit of Shell Cove (commissioned at the request of management) is separately funded. The ARIC supports this level of attention.

At its meeting on 15 June 2022 the ARIC considered the information provided and determined that it is satisfied that the Internal Audit coverage and work plan is adequate, sufficiently resourced and based on the risk management plan.

Coordination of Internal and External Audit

The Committee is required to *oversee the coordination of Internal and External Audit and any other assurance service providers* (Charter Clause 4.5).

Council's former Risk Manager established a register of recommendations made in internal audit reports and in the Audit Office management letters that accompany the external audit report. Recommendations from other reviews and inquiries are included in the same audit resolution tracking system. ARIC was advised that that recommendations are registered in the TechOne actions and tasks system to assist follow up and implementation as required.

In the financial year 2021 – 2022 this integration assisted the Committee to identify gaps and areas of overlap between internal and external audit and other assurance providers.

Implementation of internal audit recommendations

The Committee is required to *monitor the implementation of internal audit recommendations by management* (Charter Clause 4.5).

The audit resolution tracking system mentioned above is relied upon by the ARIC to monitor the implementation of internal audit recommendations. In October 2021 the Risk and Audit Manager advised of a new systematic approach to assure greater accountability; all outstanding internal audit recommendations now go through the task reporting process associated with integrated planning and reporting. The ARIC is supportive of these measures.

Internal Audit Charter

The Committee is required to *periodically review the Internal Audit Charter to ensure appropriate organisation structures, authority, access and reporting arrangements are in place* (Charter Clause 4.5).

During the financial year 2021-22 the ARIC discussed this issue with the external auditor (6 October 2021 item 8.1). The Executive Manager confirmed that the Internal Audit Charter had been reviewed initially in September 2020 and again in September 2021.

Performance of Internal Audit

The Committee is required to *periodically review the performance of Internal Audit* (Charter Clause 4.5).

In the financial year 2021 to 2022 the Committee was briefed at each meeting on the work undertaken by the Risk Assessment team.

The standard of performance in delivering the scheduled internal audit program was high. The ARIC is pleased to see signs of a return to normal levels of progress on the internal audit program, after the disruption brought about by the Coronavirus pandemic.

2.6. Overall assessment

The ARIC expects to see the scheduled audit program completed without difficulty in the coming year. The integrated audit recommendation tracking system is working very well.

External accountability and external audit

Annual financial reports

The Committee is required to *satisfy itself that the annual financial reports comply with applicable Australian and International Accounting and Financial Reporting Standards and are supported by appropriate management sign-off, on the statements and the adequacy of internal controls* (Charter Clause 4.3).

During the financial year 2021-22 The ARIC noted that Council's management team is required to sign a statement that confirms the Financial Statements have been prepared in accordance with the LG Act, Accounting Standards and OLG reporting requirements. The statement attests that the reports present fairly Council's operating result and financial position for the year.

ARIC was satisfied on this basis that the financial accounts are supported by appropriate management sign off and adequate internal controls (October 2021 item 5.2).

2.7. External audit opinion

The Committee is required to *review the external audit opinion, including whether appropriate action has been taken in response to audit recommendations and adjustments* (Charter Clause 4.3).

In the financial year 2021-2022 ARIC received regular briefings from the CFO and from the external auditors. Members were pleased to see the level of

cooperation and support between Council and its external auditors and the smooth running of the audit in this period. The draft financial statements are considered by Council's Audit Risk and Improvement Committee (ARIC) (if necessary at an extraordinary meeting) prior to them being reported to Council for adoption.

Contentious financial reporting matters

The Committee is required to *consider contentious financial reporting matters in conjunction with council's management and external auditors* (Charter Clause 4.3).

In the financial year 2021-2022 the Committee was kept abreast of significant financial accounting matters by Council staff and its external auditors (Deloitte and the Audit Office of NSW). Working relations between council officers and the external auditors are strong, with any issues that arise typically resolved without the need for ARIC attention.

There is an outstanding issue common to many local councils, relating to accounting responsibility for plant and equipment used by rural fire brigades. ARIC expects the issue will need to be resolved between the State government and local government as a group.

Consistency of annual report and financial statements

The Committee is required to *review the processes in place to ensure that financial information in the annual report is consistent with the signed statements* (Charter Clause 4.3).

In the financial year 2021-2022 ARIC was advised that Council Finance staff ensure that any financial information provided (for the annual report) is consistent with the final version of the annual financial statements. Staff check that council's financial statements are consistent with the annual report prior to publication. The financial statements and annual report are also located on Council's website, which enables any interested person to alert Council or the ARIC to any perceived inconsistency (October 2021). ARIC members have no concerns in this area.

State Government reports and recommendations

The Committee is required to *satisfy itself that there are appropriate mechanisms in place to review and implement, where appropriate, relevant State Government reports and recommendations* (Charter Clause 4.3).

In the financial year 2021-2022 ARIC was advised that Council's Executive and Senior Leadership Teams review all significant matters arising from state government initiatives. In addition, Council's records department refers State government reports, circulars and other recommendations to the appropriate manager or responsible officer for action as required.

The ARIC considered this advice and on that basis it is satisfied that there are appropriate mechanisms in place to review and implement, where appropriate,

relevant State Government reports and recommendations (December 2021 item 5.2).

Performance management framework

The Committee is required to *satisfy itself that there is a performance management framework linked to organisational objectives and outcomes* (Charter Clause 4.3).

The Integrated Planning and Reporting Framework mandated for all Councils (by OLG) links performance management to organisational objectives and outcomes. In December 2021 the ARIC was advised that the Organisational Performance Team is responsible for the corporate planning and performance management framework (Integrated Planning and Reporting) and associated planning documents.

All of the activities within the Integrated Planning & Reporting system link to one or more of the objectives contained in the Community Strategic Plan. The organisational performance team ensure staff provide monthly updates on tasks and quarterly updates on actions.

The ARIC was satisfied on this basis that there is a performance management framework linked to organisational objectives and outcomes (December 2021 item 5.2).

Appointment of the external Auditor

The Committee is required to *assist in the process of appointment of the external Auditor, by participating as a member of any panel which is responsible for the review of external audit tenders and recommendations to Council, on appointment* (Charter Clause 4.6).

Since the NSW Audit Office took responsibility for the external audit function for local councils, this element of the Committee's charter is obsolete.

Forum for communication

The Committee is intended to *act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit*.

This expectation applies in relation to both internal audit and external audit. The ARIC view has been dealt with under item 6.1 above.

Financial statements and performance audit - coverage and performance

The Committee is required to *provide input and feedback on the financial statements and performance audit coverage proposed by external audit and provide feedback on the external audit services provided* (Charter Clause 4.6).

Draft financial statements are circulated to the ARIC and discussed at a dedicated meeting if necessary. As far as ARIC is aware, the Audit Office did not conduct any external performance audits directly involving Shellharbour in the year 2021-22.

Implementation of external audit recommendations

The Committee is required to *review all external plans and reports in respect of planned or completed external audits and monitor the implementation of audit recommendations by management* (Charter Clause 4.6).

In the financial year 2021-2022 the Committee reviewed the management letter to council from the external auditor (the Audit Office). Recommendations in the management letter are tracked alongside (other) audit recommendations in a tracking system developed by the Council's Risk Manager. ARIC used the tracking system in 2021-22 to monitor the implementation of audit recommendations, including those made by the external auditor.

Significant issues raised in relevant external audit reports

The Committee is required to *consider significant issues raised in relevant external audit reports and better practice guides, and ensure appropriate action is taken* (Charter Clause 4.6).

In the financial year 2021-2022 the Committee considered significant issues raised in external audit reports, as described in earlier sections of this report, and was kept informed of progress made in resolving them. The reference in the Committee Charter to better practice guides is obsolete, having been supplanted by the OLG Integrated Planning and Reporting regime.

Overall assessment – external accountability

The system of external auditing and external accountability is working well, and the evidence suggests it is assisting Council to achieve continuous improvement.

Other Matters

Forum for communication

The Committee is intended to *act as a forum for communication between the Council, General Manager, senior management, internal audit and external audit*. (Charter Clauses 4.5, 4.6)

This expectation applies in relation to both internal audit and external audit. For part of the period 2021-2022 the membership of the GRAC included Councillors, who provided a link between the Committee and Council. Although Councillors are no longer members of the ARIC, they remain welcome to attend meetings.

Senior managers attend every ARIC meeting, and other officers attend to brief the Committee when there is an item within their area of expertise on the agenda. The GM attends at his discretion and presents a verbal report on key issues.

The Internal Auditor attends meetings to present the results of internal audits, and to discuss any issues with the Committee. The external auditors (Audit

Office and Deloitte) also attend meetings to discuss and advise on relevant items.

Performance improvement

The *Local Government Amendment (Governance and Planning) Act 2016* requires Councils to appoint an Audit, Risk and Improvement Committee, and widens their responsibilities (to encompass performance improvement). The ARIC believes Council is well positioned for the transition required.

In the financial year 2021-2022 the ARIC has been briefed regularly on Council's business improvement initiatives, including its use of technological tools such as 'Pulse' to greatly improve Council's Delegations and Policies Register. At its meeting on 6 October 2021 ARIC noted that guidance for using the register now forms part of Council's new staff onboarding and induction program.

The ARIC commended the approach and the systematic way in which this initiative is being offered as part of Business Improvement and Risk Management. The members expressed their appreciation of the great work being done by the Organisational Performance Group officers.

Private certifiers

Uncertainty regarding the ability of private certifiers to obtain professional indemnity insurance is ongoing, due to poor quality building work on apartment blocks. The potential impacts are an increased workload for Council with fewer private certifiers in the market. The ARIC action plan includes seeking periodic updates on the issue.

2.8. Outstanding leave liabilities

The ARIC action plan includes seeking periodic updates on outstanding leave liabilities, an issue that was also noted by the Audit Office in its final management letter for the year ended 30 June 2021. At its meeting on 15 June 2022 the ARIC noted that a conscious effort to reduce the potential impact was underway and that following the return of staff to the office there has been a renewed increase in staff taking leave. The ARIC has requested that Human Resources report back to the March 2023 ARIC meeting.

2.9. Internal Audits Conducted July 2021 – June 2022

Functional Area (Auditor)	Scope
Developer Contributions	Calculation, levying, indexing of levies and charges. Allocation of funds to correct works. Whether funds collected are sufficient to deliver proposed works.
Property	Property management strategy, disposal/acquisition policy, panel of agents for selling of properties, contracts for sale review, valuers and valuations, leasing and licensing of property policy, rent reviews.

2.10. Internal Audit KPI Report – July 2022

KPI	How Will it Be Measured	Target Level	Progress 1 Jul 2021 to 30 June 2022
% of audits completed annually vs proposed audits in audit plan	Tally of audits completed	75%	50%
Time taken to complete audit projects	Date from Engagement Letter to issue of Final Report	50% within Engagement Letter timeframe	50%
Timeliness of monitoring of progress in implementing audit resolutions	Progress reports submitted to Governance, Risk & and Audit Committee meetings	Progress report submitted to each meeting	Completed
Implementation of audit resolutions	Review of progress in implementing audit resolutions 12 months after audit completed	100% of resolutions satisfactorily addressed	50%

2.11. KPI's for The Governance Risk and Audit Committee July 2022

KPI	How Will it Be Measured	Target Level	Progress 1 Jul 2021 to 30 June 2022
Attendance by members at Governance, Risk and Audit Committee Meetings	Monitor attendance register	Attendance at 75% of meetings or more by each member	Julie Walton – 4 of 4 Yvette Pietsch – 4 of 4 Anthony Gearon – 4 of 4
Number of Governance, Risk and Audit Committee Meetings held	Minutes of each Committee meeting	At least four meetings per annum	4 meetings
Timeliness of annual report to Council	Date of submission of annual Governance, Risk and Audit Committee report to Council	Within 2 months of end of each financial year	Delayed
Currency and coverage of internal audit plan	Date of review of Internal audit plan	By 30 June each year	Reviewed and adopted by ARIC in March 2022
Currency and relevance of Governance, Risk and Audit Committee Charter	Date of review of Charter	By 30 June each year	New Terms of Reference endorsed by ARIC at its March 2022 and will be formally adopted once the OLG Adopted the draft guidelines

Approved for Council's
consideration:



Date of Meeting:

Attachments:

1. Audit Risk and Improvement Charter POL-0070-VO6



Audit Risk and Improvement Committee Charter Operational Policy

Policy Name: Audit Risk & Improvement Committee Charter	Policy Number: POL-0070-V06
Date Adopted: 15 March 2017	Review Date: 15 March 2023
Policy Owner: Executive Manager	

1. Policy Statement/Objective(s)

The objective of the Audit Risk & Improvement Committee is to provide independent scrutiny, assistance and formal advice to the Shellharbour City Council and its Chief Executive Officer on:

- Risk management;
- Control;
- Governance and
- External accountability responsibilities.

2. Scope

See Policy

3. References

Adapted from the draft charter proposed by the NSW Department of Local Government I/A Guidelines - October 2008, DLG Circular 08/64 - Appendix 3).

4. Definitions

Not applicable.

5. Variation and Review

Council reserves the right to review, vary or revoke this policy.

Review History

Date Policy first adopted – version 1	11 August 2010
Date amendment adopted - version 2	20 September 2010
Date amendment adopted – version 3	8 December 2011
Date amendment adopted - version 4	13 March 2013
Date amendment adopted – version 5	9 December 2015
Date amendment adopted – version 6	15 March 2017
Name change to ARIC – version 7	30 November 2022

Policy Name: Audit Risk & Improvement Committee Charter POL-0070-V06
Date of Adoption: 8 March 2017
Page 2 of 9

6. Policy

1. Objective

The objective of the Audit, Risk & Improvement Committee is to provide independent scrutiny, assistance and formal advice to the Shellharbour City Council and its Chief Executive Officer on:

- Risk management;
- Control;
- Governance and
- External accountability responsibilities.

Good governance ensures that the people of Shellharbour receive effective services delivered with honesty and integrity.

2. Authority

The Council authorises the Committee, within the scope of its role and responsibilities, to:

- Obtain any information it needs from any employee or external party (subject to their legal obligations to protect information).
- Discuss any matters with the external auditor or other external parties (subject to confidentiality considerations).
- Request the attendance of any employee or councillor at Committee meetings.
- Obtain external legal or other professional advice considered necessary to meet its responsibilities.

3. Composition and Tenure

The Committee will consist of:

3.1 Members - (voting)

- Councillors (2)
- Independent external member (not a member of the Council).
- Independent external member (not a member of the Council).
- Independent external member (an independent to be the chairperson).

The Chairperson will be appointed by Council from the independent representatives. A vacancy for an independent member of the Committee may occur upon the resignation of the member, death of the member or failure to attend without cause. Vacancies for independent members on the Audit, Risk & Improvement Committee will be filled following public advertisement inviting Expressions of Interest. A selection panel will be formed comprising the Audit, Risk & Improvement Committee Chairperson and/or nominated independent representative, a Councillor representative of the Audit, Risk & Improvement Committee and The Head of Internal Audit or their nominated delegate. The selection panel will submit a recommendation to a Council meeting for determination.

Policy Name: Audit Risk & Improvement Committee Charter POL-0070-V06
Date of Adoption: 15 March 2017
Page 3 of 9

3.2 Attendees (non-voting)

- Chief Executive Officer
- Internal Auditor
- Chief Financial Officer (as appropriate)
- Manager Financial Services (as appropriate)
- Risk Manager (as appropriate)

3.3 Invitees (non-voting) for specific Agenda items

- Mayor, in ex-officio capacity (NB resolution 6.4 of SCC Committee meeting 20/9/2010)
- Representatives of the external auditor.
- Other officers may attend by invitation as requested by the Committee.

Independent members will be appointed for a three-year term and will be eligible for reappointment for additional terms.

The independent, external members will be appointed, one initially for a one year period, one for a two year period and one for a three year period, after which they will each be eligible for re-appointment for a standard three year period.

The members of the Committee, taken collectively, will have a broad range of skills and experience relevant to the operations of Shellharbour City Council. At least one member of the Committee shall have accounting or related financial management experience, with understanding of accounting and auditing standards in a public sector environment.

Privacy

The Committee shall comply with Council policies in relation to confidentiality, privacy and reporting. Members will not disclose matters dealt with by the committee with third parties without approval.

Review

A review of the Audit, Risk & Improvement Committee will be undertaken every twelve months to assess the effectiveness of the Committee as a whole as well as the performance of the individual Committee members.

The conduct of the assessment will be undertaken in accordance with the criteria determined by Council. These criteria must include compliance with specific elements of the Committee's Charter and particularly those responsibilities and functions as detailed in the Charter.

Remuneration and Expenses

The independent members of the Audit, Risk & Improvement Committee shall be entitled to

Policy Name: Audit Risk & Improvement Committee Charter POL-0070-V06
Date of Adoption: 15 March 2017
Page 4 of 9

remuneration on the basis of a Committee meeting fee as determined by the Council. The fee will be subject to annual review in accordance with the percentage increase in the fee payable to Councillors as determined by the Local Government Remuneration Tribunal. The fee will be payable following each meeting of the Committee upon receipt of an Invoice.

4. Role and Responsibilities

The Committee has no executive powers.

In carrying out its responsibilities, the Committee must at all times recognise that primary responsibility for management of Council and all staff rests with the Council and the Chief Executive Officer as defined by the Local Government Act.

The responsibilities of the Committee may be revised or expanded by the Council from time to time.

The Committee's responsibilities are:

4.1 Risk Management

- Review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of business and financial risks, including fraud and corruption.
- Review whether Council has a sound and effective plan in place for the prevention of fraud and corruption.
- Review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings;
- Review the impact of the risk management framework on its control environment and insurance arrangements; and
- Review whether a sound and effective approach has been followed in establishing business continuity planning arrangements, including whether plans have been periodically tested.

4.2 Control Framework

- Review whether management has adequate internal controls in place, including over external parties such as contractors and advisors;
- Review and consider how management identifies any changes to the design or implementation of internal control.
- Review whether management has in place relevant policies and procedures, and these are periodically reviewed and updated;
- Progressively review whether appropriate processes are in place to assess compliance with policies and procedures.

Policy Name: Audit Risk & Improvement Committee Charter POL-0070-V06
Date of Adoption: 15 March 2017
Page 5 of 9

- Review whether appropriate policies and procedures are in place for the management and exercise of delegations; and
- Review whether management has taken adequate steps to embed a culture which is committed to ethical and lawful behaviour.

4.3 External Accountability

- Satisfy itself that the annual financial reports comply with applicable Australian and International Accounting and Financial Reporting Standards and are supported by appropriate management sign-off, on the statements and the adequacy of internal controls.
- Review the external audit opinion, including whether appropriate action has been taken in response to audit recommendations and adjustments.
- Consider contentious financial reporting matters in conjunction with council's management and external auditors.
- Review the processes in place designed to ensure financial information which is included in the annual report is consistent with the signed financial statements.
- Satisfy itself that there are appropriate mechanisms in place to review and implement, where appropriate, relevant State Government reports and recommendations.
- Satisfy itself that there is a performance management framework linked to organisational objectives and outcomes.

4.4 Legislative Compliance

- Determine and monitor whether management has appropriately considered legal and compliance risks as part of risk assessment and management arrangements.
- Review the effectiveness of the system for monitoring compliance with relevant laws, regulations and associated government policies.

4.5 Internal Audit

- Act as a forum for communication between the Council, Chief Executive Manager, senior management, internal audit and external audit.
- Assist in the process of appointment of the Internal Auditor, by participating as a member of any panel, which is responsible for the review of internal audit tenders and recommendations to Council, on appointment.
- Review the internal audit coverage and Internal Audit Plan, ensure the plan has considered the Risk Management Plan, and approve the plan.
- Consider the adequacy of internal audit resources to carry out its responsibilities, including

Policy Name: Audit Risk & Improvement Committee Charter POL-0070-V06
 Date of Adoption: 15 March 2017
 Page 6 of 9

completion of the approved Internal Audit Plan.

- Oversee the coordination of Internal and External audit and any other assurance service providers.
- Review all audit reports and consider significant issues identified in audit reports and action taken on issues raised, including identification and dissemination of better practices.
- Monitor the implementation of internal audit recommendations by management.
- Periodically review the Internal Audit Charter to ensure appropriate organisational structures, authority, access and reporting arrangements are in place.
- Periodically review the performance of Internal Audit.

4.6 External Audit

- Assist in the process of appointment of the external Auditor, by participating as a member of any panel which is responsible for the review of external audit tenders and recommendations to Council, on appointment.
- Act as a forum for communication between the Council, Chief Executive Officer, senior management, internal audit and external audit.
- Provide input and feedback on the financial statements and performance audit coverage proposed by external audit, and provide feedback on the external audit services provided.
- Review all external plans and reports in respect of planned or completed external audits, and monitor the implementation of audit recommendations by management.
- Consider significant issues raised in relevant external audit reports and better practice guides, and ensure appropriate action is taken.

4.7 Responsibilities of Members

Members of the Committee are expected to:

- Understand the relevant legislative and regulatory requirements appropriate to Shellharbour City Council.
- Contribute the time needed to study and understand the papers provided.
- Apply good analytical skills, objectivity and good judgment.
- Express opinions frankly, ask questions that go to the fundamental core of issues, and pursue independent lines of enquiry.

Policy Name: Audit Risk & Improvement Committee Charter POL-0070-V06
Date of Adoption: 15 March 2017
Page 7 of 9

Document Set ID: 11980800
Version: 1, Version Date: 01/12/2022

5. Reporting

The Committee reports to the Council.

The Internal auditor reports to the Committee on audit projects, plans and resource requirements.

At the first Committee meeting after 30 June each year, the Chair of the Audit, Risk & Improvement Committee will provide a report of:

- The role of the Committee
- The performance of Internal Audit for the financial year as measured against agreed key performance indicators.
- The approved Internal Audit Plan of work for the previous financial year showing the current status of each audit.
- The Committee will provide a report - insert for Council's annual report.

The Committee may, at any time, consider any other matter it deems of sufficient importance to do so. In addition, at any time an individual Committee member may request a meeting with the Chair of the Committee.

6. Administrative arrangements

6.1 Meetings

- The Committee will meet at least four times per year, with one of these meetings to include review and endorsement of the annual audited financial reports and external audit opinion.
- The need for any additional meetings will be decided by the Chair of the Committee, though other Committee members may make requests to the Chair for additional meetings.
- A forward meeting plan, including meeting dates and agenda items, will be agreed by the Committee each year. The forward meeting plan will cover all Committee responsibilities as detailed in this Audit Committee Charter.
- The Committee is empowered to make decisions in meetings conducted via electronic media, with any such decisions being formally endorsed at the following face to face meeting of the committee.
- In the event of a tie in the voting of the committee, the Chairperson will have a Casting vote.
- Meetings should be scheduled to commence at a time suitable to the committee and continue if necessary for a maximum period of 3 hours, after which one extension of 30 minutes may be permitted, at the discretion of the Chairperson.

Policy Name: Audit Risk & Improvement Committee Charter POL-0070-V06
Date of Adoption: 15 March 2017
Page 8 of 9

6.2 Attendance at Meetings and Quorums

- A quorum will consist of a majority of Committee members, including at least one independent member. Meetings can be held in person, by telephone or by video conference.
- If an apology for non-attendance at a meeting is submitted and accepted, no financial penalty will be incurred and the meeting reimbursement will take place.
- If a committee member is absent from three consecutive meetings without prior leave or leave granted at a meeting, that person's membership will cease and their position on the committee becomes vacant.

The Internal Auditor or Audit Consultant will be invited to attend each meeting, unless requested not to do so by the Chair of the Committee. The Committee may also request the Chief Financial Officer, Manager, Risk Management Services or any other employees to participate for certain agenda items, as well as the external auditor.

6.3 Secretariat

The Committee will request secretariat support to the Committee. This support may if required, be provided by the Council. The Secretariat will ensure that the agenda for each meeting and supporting papers are circulated, at least one week before the meeting, and ensure minutes of the meetings are prepared and maintained. Minutes shall be approved by the Chair and circulated to each member within three weeks of the meeting being held.

6.4 Conflicts of Interest

Committee members must declare any conflicts of interest at the start of each meeting or before discussion of a relevant agenda item or topic. Details of any conflicts of interest should be appropriately minuted.

Where members or invitees at Committee meetings are deemed to have a real or perceived conflict of interest, it may be appropriate they be excused from Committee deliberations on the issue where the conflict of interest may exist. The final arbiter of such a decision is the Chair of the Committee.

6.5 Induction

New members will receive relevant information, induction and briefings on their appointment to assist them to meet their Committee responsibilities.

7. **Related Forms**

Nil

8. **Attachments: Nil**

Policy Authorised by:

Name: Audit Risk & Improvement Committee

Date: 30 November 2022

Policy Name: Audit Risk & Improvement Committee Charter POL-0070-V06
Date of Adoption: 15 March 2017
Page 9 of 9