

**Report to General Manager**

Attachments:

1. Minutes – 27 March 2020

SUBJECT: Audit, Risk and Improvement Committee - Minutes 27 March 2020**AUTHOR:** Ian Curry, Manager Governance and Committee Services**ENDORSED BY:** Margaret Palmer, Director Corporate Services**EXECUTIVE SUMMARY:**

This report presents the recommendations of the meeting of the Audit, Risk and Improvement Committee (ARIC) held on 27 March 2020 for Council adoption. The Minutes are attached for information.

FINANCIAL IMPLICATIONS:

Council has allocated \$87,125.00 in the 2019/20 budget for external audit functions - \$38,970.00 has been expended to date. Council has allocated \$98,270.00 in the 2019/20 budget for the internal audit program - \$72,085.00 has been expended to date.

RECOMMENDATION:

- 1. THAT** the Annual Engagement Plan for the Audit for the Year Ending 30 June 2020 be noted by the Committee. (AR01)
- 2. THAT** report AR02 and the status of the 2020 Internal Audit Plan be received and noted. (AR02)
- 3. THAT** the survey of the internal audit function's annual performance be developed and circulated to all stakeholders with a report to be provided to the next Committee meeting on 26 June 2020. (AR02)
- 4. THAT** the ARIC effectiveness survey be completed for reporting to the next Committee meeting on 26 June 2020, noting the template used by other Councils of the shared service would be useful for collective reporting of the governance of the shared service. (AR02)
- 5. THAT** the Committee endorse reclassification of the part time shared Internal Audit service position to a full-time position. (AR02)
- 6. THAT** the status of past internal audit recommendations (including the observations made regarding the Business Continuity Management scenario) be received and noted. (AR03)
- 7. THAT** the Facility Management – Internal Audit Report be received and noted. (AR04)
- 8. THAT** the Committee notes the recommendations within the Payroll, Attendance and Leave Management reports. (AR05)
- 9. THAT** a further report on the implementation, progress and planning of the recommendations in this Review and an estimate of costings be submitted to the next Committee meeting. (AR05)

10. THAT the Manager Workforce Planning be invited to attend the next Committee meeting to address this matter. (AR05)

11. THAT the Committee note the changes and Council's preparedness to meet the adoption of the new Accounting Standards. (AR06)

12. THAT the Enterprise Risk Management Update report be received. (AR07)

LINK TO COMMUNITY STRATEGIC PLAN

The relationship with the Community Strategic Plan is as follows:

Direction: 5. Our Civic Leadership

Outcome: 5.2 Council is well governed and customer focused

BACKGROUND

In accordance with Council's Code of Meeting Practice:

20.24 The minutes of meetings of each Committee of the Council must be confirmed at a subsequent meeting of the committee.

In accordance with the Audit, Risk & Improvement Committee Charter:

7. REPORTING

The endorsed Minutes of the Committee Meetings will be submitted to the next available Council meeting for adoption subject to any confidentiality requirements of specific items.

CONSULTATION REQUIREMENTS

Community engagement is not required.

SUSTAINABILITY STATEMENT

The sustainability implications are of a minor nature and as such did not warrant a detailed assessment.

DETAIL

This report presents the recommendations of the meeting of the Audit, Risk and Improvement Committee held on 27 March 2020 for Council adoption. The Minutes are attached for information.

The following summarises the 'Actions for Future Meetings' arising from the reports as discussed and adopted at the meeting:

- the ARIC effectiveness survey be completed for reporting to the next Committee meeting on 26 June 2020, noting the template used by other Councils of the shared service (Refer Attachment 3) would be useful for collective reporting of the governance of the shared service.
 - a further report on the implementation, progress and planning of the recommendations in this Review and an estimate of costings be submitted to the next Committee meeting. The Manager Workforce Planning be invited to attend this meeting to address the Review.
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Minute Book Page No 1**NORTH SYDNEY COUNCIL****REPORT OF AUDIT, RISK & IMPROVEMENT COMMITTEE**

SUBJECT: PROCEEDINGS OF COMMITTEE AT MEETING HELD IN THE CONFERENCE ROOM AT THE COUNCIL CHAMBERS, NORTH SYDNEY, ON FRIDAY 27 MARCH 2020 AT 10.00AM.

PRESENT

Brian Hrnjak, Independent Chair, Independent Member Ron Switzer (*by phone link*) and Councillor Mutton

Council Staff:

Ken Gouldthorp	General Manager (Item 7 and General Business only)
Margaret Palmer	Director Corporate Services
Garry Ross	Manager Financial Services
Jon Paul Agnew	Manager Risk
Susan Leahy	Head of Internal Audit North Shore Councils (External)
Ian Curry	Manager Governance & Committee Services (Minutes)

Visitors:

	(<i>by phone link</i>)
Luke Malone	Director, Corporate Assurance, Prosperity Advisers Group
Unaib Jeffrey	Audit Office of NSW

Apologies:

Councillor Barbour

1. Declarations of Interest

Nil.

2. Minutes

The Minutes of the previous meeting held on 8 November 2019, copies of which had been previously circulated, were taken as read and confirmed.

3. AR01: Annual Engagement Plan for the Audit for the Year Ending 30 June 2020

Report of Garry Ross, Manager Financial Services

The Audit Office of NSW has issued Council with the agreed Annual Engagement Plan (AEP) for the audit of North Sydney Council's Financial Statements for the year ending 30 June 2020.

The AEP outlines the roles and responsibilities of the Audit Office and documents the audit approach to be implemented in the audit process.

Recommending:

1. THAT the Annual Engagement Plan for the Audit for the Year Ending 30 June 2020 be considered by the Committee.

Luke Malone from Prosperity Advisers Group and Unaib Jeffrey from the Audit Office of NSW addressed the Committee on this Item.

Resolved to recommend:

1. THAT the Annual Engagement Plan for the Audit for the Year Ending 30 June 2020 be noted by the Committee.

Voting was unanimous.

4. AR02: Internal Audit Status Report

Report of Susan Leahy, Head of Internal Audit North Shore Councils

This report provides a status on the Internal Audit Function in terms of resources, planned and completed audits and the associated activities that have been undertaken since the last meeting.

Recommending:

1. THAT this report and the status of the 2020 Internal Audit Plan be received and noted.

2. THAT the survey of the internal audit function's annual performance be developed and circulated to all stakeholders with a report to be provided to the next Committee meeting on 26 June 2020.

3. THAT the ARIC effectiveness survey be completed for reporting to the next Committee meeting on 26 June 2020, noting the template used by other Councils of the shared service (Refer Attachment 3) would be useful for collective reporting of the governance of the shared service.

Resolved to recommend:

1. THAT this report and the status of the 2020 Internal Audit Plan be received and noted.

2. THAT the survey of the internal audit function's annual performance be developed and circulated to all stakeholders with a report to be provided to the next Committee meeting on 26 June 2020.

3. THAT the ARIC effectiveness survey be completed for reporting to the next Committee meeting on 26 June 2020, noting the template used by other Councils of the shared service (Refer Attachment 3) would be useful for collective reporting of the governance of the shared service.

4. THAT the Committee endorse reclassification of the part-time shared Internal Audit service position to a full-time position.

Voting was unanimous.

5. AR03: Internal Audit Recommendations Status Report

Report of Susan Leahy, Head of Internal Audit North Shore Councils

Report on the progress of previous recommendations made.

Recommending:

1. THAT the status of past internal audit recommendations (including the observations made regarding the Business Continuity Management scenario) be received and noted.

Resolved to recommend:

1. THAT the status of past internal audit recommendations (including the observations made regarding the Business Continuity Management scenario) be received and noted.

Voting was unanimous.

6. AR04: Facility Management – Internal Audit Report

Report of Susan Leahy, Head of Internal Audit North Shore Councils

The internal audit of Facility Management has been completed. A copy of the full internal audit report is provided for the Committee's information.

The following controls were observed as working well:

- Financial delegations and adequate segregations of duty are in place to ensure that staff have the authority to raise purchase orders for property maintenance.
- Both the finance and asset management teams monitor operational budgets regularly.
- The Property Asset Team utilises a calendar for recurrent contract maintenance services and results are monitored.
- A centralised team monitors community facility bookings, bond taking and payment processes effectively for the Coal Loader and community venues (except for North Sydney Oval).

However, there are areas where urgent or short term actions are required to improve the facility management framework with a rating of **Needs Improvement** being applied based on the following:

- Formalise reporting processes upon receipt of Annual General Building and Annual Fire Audit Inspection Reports to the Director and where significant work is required, prioritise completion in conjunction with the Risk Management Department to ensure they are rectified in a timely manner.
- Inconsistencies observed between the two systems used for recording and actioning reactive maintenance requests.
- Monitoring and assessing of actual versus required internal maintenance response times.
- Update the Property Asset Operational Manual to assist with mitigating key person risk. Key person risk should also be considered when updating operational guidelines with respect to North Sydney Oval.
- Review Asset Management Working Group Charter to ensure that its responsibilities are aligned to actual expectations.

Recommending:

1. THAT the Facility Management – Internal Audit Report be received and noted.

Resolved to recommend:

1. THAT the Facility Management – Internal Audit Report be received and noted.

Voting was unanimous.

7. **AR05: Payroll, Attendance and Leave Management Report**

Report of Margaret Palmer, Director Corporate Services

In August 2019, Council commissioned Centium to review the Payroll, Attendance and Leave Management processes at Council and provide a report and recommendations. Copies of the Completion Letter, Detailed and Summary Reports are attached for the Committee's review.

The field work was completed in September 2019 therefore some issues have subsequently been resolved. For example, Document Management Services are no longer four weeks behind in the registration of documents.

Management responses have been included in the detailed report with the majority of actions shared between the Finance (Payroll) and Workforce Planning departments.

High level recommendations to aim for over time are as follows:

- Transition to a fortnightly payroll (including alignment of timesheet design to a fortnightly template);
- Consider automation of payroll processes (i.e. leave applications, time and attendance recording);
- Implement a self-service solution for staff to enter low-risk, high-volume transactions into the payroll system (e.g. bank details, emergency contacts, deductions, etc.); and
- Centralise the internal staffing policy review processes.

In the interim, Centium recommended that Council:

- Review the controls over the design of flex sheets;
- Retain evidence of flex sheet review;
- Explicitly define management accountabilities regarding payroll, time/attendance and leave tasks;
- Ensure that Document Management Services and/or recordkeeping is up to date;
- Consider options to reduce payroll processing and checking tasks; and
- Review the ongoing requirement for managers / staff to use Attendance Books.

An ongoing trend throughout the report is the lack of consistency in the application and enforcement of policies, particularly with Flex, Sign in/out books and excess leave.

The actions detailed in the management responses will be followed up with the relevant departments in order to formulate a strategic approach to address the recommendations.

Recommending:

1. THAT the Committee reviews the attachments and notes the recommendations within the Payroll, Attendance and Leave Management reports.

Resolved to recommend:

1. THAT the Committee notes the recommendations within the Payroll, Attendance and Leave Management reports.

2. THAT a further report on the implementation, progress and planning of the recommendations in this Review and an estimate of costings be submitted to the next Committee meeting.

3. THAT the Manager Workforce Planning be invited to attend the next Committee meeting to address this matter.

Voting was unanimous.

8. **AR06: Impact of New Accounting Standards**

Report of Garry Ross, Manager Financial Services

The following new Accounting Standards will impact on future financial statements of North Sydney Council:

- AASB 15 Revenue from Contracts with Customers (Applicable 2019/20)
- AASB 1058 Income of Not-for-Profit Entities (Applicable 2019/20)
- AASB 16 Leases (Applicable 2019/20)
- AASB 1059 Service Concession Arrangements: Grantors (Applicable 2020/21)

AASB 15 replaces AASB 118 *Revenue* and results in a move from a “transfer of risks and rewards” approach to the recognition of revenue to a “transfer of control” approach. This will require each contract with a customer to be assessed to identify the performance obligations it creates.

AASB 1058 largely replaces AASB 1004 *Contributions* and establishes the principles for transactions where the consideration to acquire an asset is significantly less than fair value. AASB 1058 will firstly require the determination of whether a transaction falls under the scope of AASB 15. Only if it does not, will AASB 1058 be applied.

AASB 16 which replaces AASB 117 *Leases* effectively requires recognition of all leases on the Balance Sheet, with some exceptions. Lessees will recognise a right-of-use asset as well as a lease liability on their Balance Sheet and the interest charge on the lease liability on their income statement. For lessors, accounting under AASB 16 is substantially unchanged.

AASB 1059 provides guidance to public sector entities on how it should recognise assets and liabilities from public-private partnerships (PPPs) where it is the **grantor** in a service concession arrangement.

Recommending:

1. THAT the Committee note the changes and Council’s preparedness to meet the adoption of the new Accounting Standards.

Resolved to recommend:

1. THAT the Committee note the changes and Council’s preparedness to meet the adoption of the new Accounting Standards.

Voting was unanimous.

9. AR07: Enterprise Risk Management Update

Report of Jon Paul Agnew, Risk Manager

This report provides an update on Council’s Enterprise Risk Management (ERM) program including:

- An overview of signal achievements in the past year.
- Significant risk sources and control improvements, such as:
 - COVID-19 (Coronavirus disease 2019).
 - Business continuity.
 - Information security.
 - Bushfires and wild weather.
- Participation in the Resilient Sydney initiative.
- Results and analysis from the annual enterprise risk profiling in February-March 2020.

Recommending:

1. THAT the Enterprise Risk Management Update report be received.

Resolved to recommend:

1. THAT the Enterprise Risk Management Update report be received.

Voting was unanimous.

10. General Business

The following summarises the 'Actions for Future Meetings' arising from the reports as discussed and adopted at the meeting:

- the ARIC effectiveness survey be completed for reporting to the next Committee meeting on 26 June 2020, noting the template used by other Councils of the shared service (Refer Attachment 3) would be useful for collective reporting of the governance of the shared service.
- a further report on the implementation, progress and planning of the recommendations in this Review and an estimate of costings be submitted to the next Committee meeting. The Manager Workforce Planning be invited to attend this meeting to address the Review.

Council's Response to COVID-19

The General Manager briefed the Committee on Council's response to the COVID-19 situation.

Thanks to Mr Ron Switzer

Mr Hrnjak thanked Mr Switzer for his excellent chairmanship of the Committee and for his assistance in assuming that role.

Payment in Accordance with the Local Government Officers Award

Mr Switzer thanked the Director Corporate Services for the memo on this matter that was distributed with the Minutes of the 8 November 2019 Committee meeting.

The meeting closed at 12.00pm.

The next meeting will be held on Friday 26 June 2020 at 10.00am.