

NOTICE OF MEETING



INTERNAL AUDIT ADVISORY COMMITTEE MEETING

An Internal Audit Advisory Committee Meeting of Byron Shire Council will be held as follows:

Venue	Conference Room, Station Street, Mullumbimby
Date	Thursday, 18 February 2016
Time	11.00am

Mark Arnold
Director Corporate and Community Services

I2016/120
Distributed 16/02/16

CONFLICT OF INTERESTS

What is a “Conflict of Interests” - A conflict of interests can be of two types:

Pecuniary - an interest that a person has in a matter because of a reasonable likelihood or expectation of appreciable financial gain or loss to the person or another person with whom the person is associated.

Non-pecuniary – a private or personal interest that a Council official has that does not amount to a pecuniary interest as defined in the Local Government Act (eg. A friendship, membership of an association, society or trade union or involvement or interest in an activity and may include an interest of a financial nature).

Remoteness – a person does not have a pecuniary interest in a matter if the interest is so remote or insignificant that it could not reasonably be regarded as likely to influence any decision the person might make in relation to a matter or if the interest is of a kind specified in Section 448 of the Local Government Act.

Who has a Pecuniary Interest? - a person has a pecuniary interest in a matter if the pecuniary interest is the interest of the person, or another person with whom the person is associated (see below).

Relatives, Partners - a person is taken to have a pecuniary interest in a matter if:

- The person’s spouse or de facto partner or a relative of the person has a pecuniary interest in the matter, or
- The person, or a nominee, partners or employer of the person, is a member of a company or other body that has a pecuniary interest in the matter.

N.B. “Relative”, in relation to a person means any of the following:

(a) the parent, grandparent, brother, sister, uncle, aunt, nephew, niece, lineal descends or adopted child of the person or of the person’s spouse;

(b) the spouse or de facto partners of the person or of a person referred to in paragraph (a)

No Interest in the Matter - however, a person is not taken to have a pecuniary interest in a matter:

- If the person is unaware of the relevant pecuniary interest of the spouse, de facto partner, relative or company or other body, or
- Just because the person is a member of, or is employed by, the Council.
- Just because the person is a member of, or a delegate of the Council to, a company or other body that has a pecuniary interest in the matter provided that the person has no beneficial interest in any shares of the company or body.

Disclosure and participation in meetings

- A Councillor or a member of a Council Committee who has a pecuniary interest in any matter with which the Council is concerned and who is present at a meeting of the Council or Committee at which the matter is being considered must disclose the nature of the interest to the meeting as soon as practicable.
- The Councillor or member must not be present at, or in sight of, the meeting of the Council or Committee:
 - (a) at any time during which the matter is being considered or discussed by the Council or Committee, or
 - (b) at any time during which the Council or Committee is voting on any question in relation to the matter.

No Knowledge - a person does not breach this Clause if the person did not know and could not reasonably be expected to have known that the matter under consideration at the meeting was a matter in which he or she had a pecuniary interest.

Participation in Meetings Despite Pecuniary Interest (S 452 Act)

A Councillor is not prevented from taking part in the consideration or discussion of, or from voting on, any of the matters/questions detailed in Section 452 of the Local Government Act.

Non-pecuniary Interests - Must be disclosed in meetings.

There are a broad range of options available for managing conflicts & the option chosen will depend on an assessment of the circumstances of the matter, the nature of the interest and the significance of the issue being dealt with. Non-pecuniary conflicts of interests must be dealt with in at least one of the following ways:

- It may be appropriate that no action be taken where the potential for conflict is minimal. However, Councillors should consider providing an explanation of why they consider a conflict does not exist.
- Limit involvement if practical (eg. Participate in discussion but not in decision making or vice-versa). Care needs to be taken when exercising this option.
- Remove the source of the conflict (eg. Relinquishing or divesting the personal interest that creates the conflict)
- Have no involvement by absenting yourself from and not taking part in any debate or voting on the issue as if the provisions in S451 of the Local Government Act apply (particularly if you have a significant non-pecuniary interest)

RECORDING OF VOTING ON PLANNING MATTERS

Clause 375A of the Local Government Act 1993 – Recording of voting on planning matters

- (1) In this section, **planning decision** means a decision made in the exercise of a function of a council under the Environmental Planning and Assessment Act 1979:
 - (a) including a decision relating to a development application, an environmental planning instrument, a development control plan or a development contribution plan under that Act, but
 - (b) not including the making of an order under Division 2A of Part 6 of that Act.
- (2) The general manager is required to keep a register containing, for each planning decision made at a meeting of the council or a council committee, the names of the councillors who supported the decision and the names of any councillors who opposed (or are taken to have opposed) the decision.
- (3) For the purpose of maintaining the register, a division is required to be called whenever a motion for a planning decision is put at a meeting of the council or a council committee.
- (4) Each decision recorded in the register is to be described in the register or identified in a manner that enables the description to be obtained from another publicly available document, and is to include the information required by the regulations.
- (5) This section extends to a meeting that is closed to the public.

BYRON SHIRE COUNCIL
INTERNAL AUDIT ADVISORY COMMITTEE MEETING

BUSINESS OF MEETING

- 1. APOLOGIES**
- 2. DECLARATIONS OF INTEREST – PECUNIARY AND NON-PECUNIARY**
- 3. ADOPTION OF MINUTES FROM PREVIOUS MEETINGS**
 - 3.1 Internal Audit Advisory Committee Meeting held on 12 November 2015
- 4. BUSINESS ARISING FROM PREVIOUS MINUTES**
- 5. STAFF REPORTS**

Corporate and Community Services

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STAFF REPORTS - CORPORATE AND COMMUNITY SERVICES

Report No. 5.1 **Internal Audit Report February 2016**
Directorate: Corporate and Community Services
5 **Report Author:** Mark Arnold, Director Corporate and Community Services
File No: I2016/103
Theme: Corporate Management
 Governance Services

10 **Summary:**

15 This report has been prepared to allow the Internal Audit Committee to consider the Internal Audit Report (February 2016) prepared by the Internal Auditor, Grant Thornton.

RECOMMENDATION:

That the Internal Audit Committee recommend to Council:

That Council receive and note the Internal Audit Report – Audit Committee (February 2016) (#E2016/9342) prepared by the Internal Auditor, Grant Thornton.

Attachments:

1 Confidential - Internal Audit Report February 2016, E2016/9342

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Report

This report has been prepared to allow the Internal Audit Committee to consider the Internal Audit Report (February 2016) prepared by the Internal Auditor, Grant Thornton.

5 A copy of the Internal Audit Report has been included as Attachment 1 to this report.

The Internal Audit Report has been prepared to include an update on the following:

- 10 • Status of Agreed Actions from Prior Audits
- Status update on the implementation of agreed actions from previous Internal Audit Review Reports.

15 The Internal Auditor will be available at the meeting to answer any questions associated with the Report.

The following Resolution was adopted by Council at its Ordinary meeting held on 10 December 2015.

20 **15-626 Resolved**

- 25 1. *That Management review the comments for Actions 3 and 5 and prepare a further report for the next meeting of the Internal Audit Advisory Committee on these Actions from the Inventory Control Review.*
- 30 2. *That, subject to point 1 above, the Internal Audit Report – Inventory Control Review - September 2015, along with responses and actions detailed by Management be noted by Council.*

The following comments are provided below in accordance with the request of the Internal Audit Committee detailed in Part 1 of the above Resolution.

35 Action 3 – Fuel Monitoring

Discrepancies in Fuel @ Stocktake

Diesel, Stock # 45100

<i>Year</i>	<i>Discrepancy</i>
2015	+ 2,754.3 litres
2014	- 799 litres
2013	+ 3,297 litres
2012	- 15 litres

40 **Unleaded Petrol, Stock # 12600**

<i>Year</i>	<i>Discrepancy</i>
2015	- 243.3 litres
2014	+ 326 litres
2013	+ 242.5 litres
2012	+ 297 litres

As per above data, the negative discrepancies in both diesel and unleaded fuel stock over the past four years have been minimal, whilst the positives are in some cases substantial.

The positive discrepancies are possibly caused by either the wrong stock number being used to enter stock issues, or a misunderstanding of computer functionality by the Stores Assistant inputting the data, by entering stock issues more than once. Staff performing the role are now trained in understanding correct processing to avoid a recurrence.

5 Under Action .b Management Comments, it is proposed to have both the books and keys held at the Store, giving an added level of security and control at the time of supply of the store item, without staff from the store being present for the entire filling time at the bowser. If similar or substantial discrepancies continue after this has been implemented then consideration will be given to a full bowser service for the issue of fuel from the depot.

Action 5 - Environmental Emergency Stock Items

15 Currently all non-stock items are controlled within the Store by the two Store staff. The proposed solution of moving the items to another location in the Depot would see these items controlled by the same two staff, along with the Fleet/Depot Team Leader. The proposed location is easily accessible by the staff, and as these items are infrequently removed, this option is seen as practical.

20 Additionally, best-practice dictates that non-stock items should not be physically located in the same space as stock items, particularly during Stocktakes.

25 At peak periods (school holidays, 'Schoolies' etc), the Store is required to stock additional supplies of stock due to a rise in usage level and public holiday closures. The additional amount which can be stored is limited, due to the lack of available space.

30 To achieve the Recommendation from Item # 1 of the Internal Audit Report - Segregated Stores Operations - transferring additional stock items from the Water & Sewer section into the Store, will require additional space to be found within the Store.

35 Currently, space within the Store is minimal, and there is very little opportunity for improvement by stock re-arrangement. Over the longer term, space may be freed up by removal of obsolete items, as per Action 2.2 of the Internal Audit Report, but this will only be achieved as time and resourcing allow

Estimated Value of Items

40	Geofabric	-	\$9,500.00
	Spillsorb	-	\$3,066.00
	Toilet Bowls	-	\$3,850.00
	Sportsfield Equipment	-	\$1,800.00

Frequency of Stock Removal from Store

45	Geofabric	-	Small portion taken once in last 2 years
	Spillsorb	-	One quarter of total taken across 2 occasions in last year
	Toilet Bowls	-	Approximately 6 items taken per year
	Sportsfield Equipment	-	Approximately 2 items taken per year.

50 As can be seen, the above items are rarely removed from the Store, but take up considerable physical space.

Removal of the non-stock items would also allow for improved opportunity to reconfigure stock across the Store in regard to high/low use items. At the present time only minimal changes can be made to achieve this without impeding store operations.

Financial Implications

There no financial implications associated with this report.

5 Statutory and Policy Compliance Implications

10 The performance of the Internal Audit Services is required to be undertaken in accordance with the terms and conditions of Internal Audit Services Contract 2013-0024. These terms and conditions require consideration of the NSW Department of Premier and Cabinet, Division of Local Government, Internal Audit Guidelines and compliance with the associated professional accounting and audit standards.

**Report No. 5.2 Internal Audit Report - Governance and Complaints Handling
November 2015**

Directorate: Corporate and Community Services
Report Author: Trish Kirkland, Manager Governance Services
File No: I2016/104
Theme: Corporate Management
Governance Services

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10 **Summary:**

Council's Internal Auditors, Grant Thornton, conducted a review of Council's Governance and Complaints Handling function during November 2015.

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The purpose of this report is to table the Internal Audit Report on the Governance and Complaints Handling Review, with some alternate recommendations from management, for consideration by the Internal Audit Advisory Committee. A copy of the Report is included at Attachment 1.

20

The report includes the findings made by Grant Thornton and responses from Management to the findings.

RECOMMENDATION:

That the Internal Audit Report – Governance and Complaints Handling November 2015 (E2016/8802) be noted by Council along with responses and actions detailed by Management.

Attachments:

25

1 Confidential - Internal Audit Report - Governance and Complaints Handling Review November 2015, E2016/8802

Report

5 Council's Internal Auditors, Grant Thornton, conducted a review of Council's Governance and Complaints Handling function during November 2015. This review was part of the adopted Internal Audit Plan for Council.

10 The purpose of this report is to table the Internal Audit Report on the Governance and Complaints Handling Review, together with management's recommendations, for consideration by the Internal Audit Advisory Committee. A copy of the Report is included at Attachment 1.

15 The report by Grant Thornton provides an overall rating, which has been categorised as 'Acceptable'. A rating of *Acceptable* is defined as "Overall a good framework in place. Some improvements identified, which would further strengthen the overall control environment".

20 Identified in the Internal Audit Report – Governance and Complaints Handling Review November 2015 were four (4) findings, summarised as follows with associated rating to identify their significance:

- Duration of Council Meetings (Rating: Moderate)
- Council Business Papers (Rating: Moderate)
- Risk Management (Rating: Moderate)
- Committee Groups (Rating: Low)

25 In regard to the ratings to identify the significance identified in the report, the following definitions are applied:

- Rating: High – Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives
- Rating: Moderate – Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives
- Rating: Low – Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives

35 Management has included comments in relation to each of the recommendations.

The review of the Governance and Complaints Handling Review function, through the independent audit undertaken by Grant Thornton, has been welcomed and has assisted in the identification of better practices and process improvement.

40 Financial Implications

45 There are no financial implications associated with this report. There may be financial implications resulting from the implementation of the recommendation from the Internal Auditor, which will be met from existing budgets or, where required, reported to Council for the allocation of budget, to implement the recommendation or actions determined as a result of any investigation.

Statutory and Policy Compliance Implications

50 This Review was undertaken in accordance with the adopted Internal Audit Strategy and Audit Plan.

Report No. 5.3 **2014/2015 Financial Statements Audit Management Letter**
Directorate: Corporate and Community Services
Report Author: James Brickley, Manager Finance
File No: I2016/105
5 **Theme:** Corporate Management
 Financial Services

Summary:

10 Council has received an Audit Management Letter from its external auditors, Thomas Noble and Russell, relating to the audit of the 2014/2015 financial statements. The Audit Management Letter details two matters for Management to review.

15 Each of the matters raised in the Audit Management Letter have been itemised in the report for the Internal Audit Committee's consideration.

RECOMMENDATION:

That the comments provided by Management in response to matters raised in the 2014/2015 Financial Statements Audit Management Letter be noted by Council.

Attachments:

20

1 Confidential - Final Audit Management Letter relating to 2014/2015 Financial Statements received from Thomas Noble and Russell, E2016/7894

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Report

5 Council has received an Audit Management Letter following the audit of the 2014/2015 financial statements by its external auditors, Thomas Noble and Russell. Full details of this letter are contained at Confidential Attachment 1.

10 The Audit Management Letter raises two matters. Each matter has been listed in the tables below, with a comment from Management on each. The Audit Management Letter provided to Council is slightly different to those reported to the Internal Audit Committee in previous years, in that a recommendation and risk weighting have not been provided by the External Auditor. The comments provided by the External Auditor in relation to each matter are contained in Attachment 1.

Item 1	Inadequate supporting documentation (repeat matter)
Management Response:	<p>This matter was raised in the 2013/2014 audit and still exists for the 2014/2015 audit.</p> <p>The issues raised in the audit management letter relate to Ledger account 5102.204, not 5101.204. Ledger account 5102.204 is the GST Creditor for the GST attached to purchase orders that have been receipted but not yet paid.</p> <p>Ledger account 5101.204 is the GST control account and it holds all GST transactions for GST collected from the receipt for a GST input tax credit from a purchase. Ledger account 5101.204 is reconciled every month and correlates to the Business Activity Statement (BAS) Council lodged monthly.</p> <p>Council has recently upgraded to a later version of Authority being version 6.10. Council is currently in the process of reviewing and testing the enhancements in this version of Authority. The review and testing of the report that verifies the balance of Ledger account 5102.204 is part of this process, but at the time that this report was prepared this testing had not been completed.</p> <p>The Authority upgrade occurred after the audit of the 2014/2015 financial statements had been finalised.</p> <p>Should the current version of Authority not include the reporting required, Council will continue to raise with Civica, the need for the development of a report that will assist in the reconciliation of the Ledger account relating to GST on purchase orders received but not yet paid for.</p>
Item 2	Provision for Remediation of Quarry and Landfill Sites
Management Response:	<p>Council for some time has not revised the assumptions and calculations for the liability provision shown in its balance sheet related to the remediation of Quarry and Landfill sites. Council has been requested to do a thorough reassessment of the liability provisions for the financial year ended 30 June 2016, with documented reassessments and third party information to this process. This has been a difficult issue for Council to clarify given Council has not been in a position to determine remediation timings given current landfill site has storage capacity remaining but it is currently more economical to run a transfer station and to transport waste to Queensland. Additionally Council is still extracting material from the Quarry site. It is understood Council will be in a position by 30 June 2016 to provide a more detailed reassessment of these</p>

	liability provisions as Council is about to reconsider its options in terms of these sites.
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It is proposed to respond to the Audit Management Letter received from Thomas Noble and Russell with the Management comments outlined above.

5 Financial Implications

None associated with this report. The actions required to respond to the Audit Management Letter will be met from existing budget allocations.

10 Statutory and Policy Compliance Implications

In regard to keeping accounting records, Section 412 of the Local Government Act 1993 requires Council to do the following:

- 15 (1) *A council must keep such accounting records as are necessary to correctly record and explain its financial transactions and its financial position.*
- (2) *In particular, a council must keep its accounting records in a manner and form that facilitate:*
 - (a) *the preparation of financial reports that present fairly its financial position and the results of its operations, and*
 - (b) *the convenient and proper auditing of those reports.*

20 The issue of an Audit Management Letter provides an independent view on the controls and systems in place surrounding Council's accounting records.