



**CENTRAL DARLING SHIRE COUNCIL
AUDIT COMMITTEE**

Notice and Agenda for Meeting to be held
Friday 22 June 2012, 10am
Council Office, 21 Reid Street, Wilcannia

AGENDA

1. Welcome
2. Apologies
3. Election of Chairperson
4. Declarations of conflicts of interest
5. Minutes of last meeting
6. Business arising from minutes
7. Payroll review
8. Legislative compliance audit response
9. Progress on implementation of internal audit report recommendations
10. Integrated planning and reporting update
11. 2011/12 Interim audit
12. Development of risk management plan & risk register
13. Audit Committee work plan/meeting schedule



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3 ELECTION OF CHAIRPERSON

In accordance with the Committee's Charter, a Chairperson must be elected from one of the two independent members of the Committee. The Charter is not specific as to how the Chairperson will be elected, but it is presumed that the election will be by way of open vote in this meeting.

The term of appointment for the Chairperson should be the same as that of the independent members, that is for 6 months beyond the term of the Council. This will ensure continuity in the role following the September 2012 general Council election.

The General Manager will chair the meeting until the Chairperson is determined.

Recommendations

That the election for the position of Chairperson of the Central Darling Shire Council be by way of open vote.

That the term of the Chairperson be for a period ending 6 months after the September 2012 general Council election.

4 DECLARATIONS OF CONFLICT OF INTEREST

In accordance with section 6.4, Conflicts of Interest, of the Audit Committee's Charter, each member of the Committee is obliged to consider whether they have any conflict of interest in relation to any of the items on the agenda for the meeting and if so, declare them at the start of the meeting.

Recommendation

That any Conflicts of Interest raised by Audit Committee members be noted.

5 MINUTES OF THE LAST MEETING



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6 BUSINESS ARISING FROM THE MINUTES

7 PAYROLL REVIEW

UHY Haines Norton undertook a payroll review in January/February 2012, in response to concerns raised by members of the Audit Committee about Council's payroll function. The scope of the review was as follows:

1. Purpose and Scope

- 1.1. Our understanding of the objective of this review is to provide an assessment of the adequacy of the payroll function in relation to policies and procedures and compliance with the Local Government Award.
- 1.2. We will conduct our review based upon the following agreed procedures:
 - 1.2.1. Review and understand the relevant policies, procedures and practices of Council in relation to payroll and payroll legislative compliance;
 - 1.2.2. Select and test a sample of discrete payroll transactions from both time records and the payroll system to confirm accuracy and completeness of transactions;
 - 1.2.3. Select and test a sample of transactions and confirm the payroll system is correctly tracking employee leave and accurately maintaining schedules of outstanding annual, long service and sick leave;
 - 1.2.4. Review the process for allocation of labour costs into other modules of your accounting system;
 - 1.2.5. Provide a written report summarising the findings of the review and highlight any identified relevant issues, areas for improvement and, where appropriate, suggested actions to be taken.



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The report arising from that review contains 12 recommendations for improvement, with the emphasis on the need for the establishment of a comprehensive policy and procedure framework and a more rigorous process of review and authorisation of payroll transactions, as noted in the report's Executive Summary.

Council's management has reviewed the report and is in agreement with all the recommendations. Rather than provide a management response to each recommendation, an action plan has been developed, which proposes that the necessary improvements be made through a 3 stage process.

Whilst elements of the stages may be undertaken concurrently, each stage has distinct elements and varying completion dates. Stage 1, due to be completed by 31 August, focuses on development of the policy framework required to underpin the payroll function. Stage 2, due for completion by 31 October, is concerned with the development of detailed controls, procedures and reporting mechanisms.

The final stage is due to be completed by 31 December and is designed to increase efficiencies, manage risks and provide for succession planning for the payroll function.

Timeframes for each of the stages make allowance for Council's current situation, in which it finds itself dealing with many challenges, including that of recruitment of staff to key roles in the corporate and community services department.

Recommendations

- 1 That the Payroll Review report be received and noted by the Committee.
- 2 That the action plan prepared by management in response to the Payroll Review be endorsed by the Committee.

8 LEGISLATIVE COMPLIANCE AUDIT RESPONSE

Council's internal auditors, UHY Haines Norton, undertook a legislative compliance review in early 2012. The Audit Committee has previously been supplied with a copy of this report and has



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considered it at earlier meetings. For various reasons, a management response has not previously been prepared in relation to this report, however this has now been done and the response is attached to this agenda.

It should be noted that some of the actions suggested in the recommendations have now been undertaken. Others are still in need of action, which in some cases will require extensive work, as can be seen from the suggested timeframes for completion.

Recommendation

That the Management Response to the Legislative Compliance Review be received and noted by the Committee.

9 STATUS OF INTERNAL AUDIT REPORT RECOMMENDATIONS

Since the inception of the Audit Committee and the development of an internal audit function, a number of reviews have been conducted. These reviews include the following:

- Payroll Function
- Corporate Credit Card Transactions
- Asset Stewardship
- Legislative Compliance

A formal mechanism to review the progress made on implementing the recommendations arising from these reviews has not yet been developed. It is appropriate that the Audit Committee review the progress made in this regard and re-visit any aspects of the reviews that it considers warrant further discussion.

The Audit Committee can provide direction to management as to the format and content it would envisage being incorporated in what would be a standing agenda item for future Audit Committee meetings.



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Due to time constraints, it has not been possible to prepare a detailed report for this agenda on the current status of the implementation of the recommendations from the various internal audit reports. A verbal update will be provided at the meeting.

Recommendation

That the Audit Committee receive and note the report Status of Internal Audit Report Recommendations.

10 INTEGRATED PLANNING AND REPORTING UPDATE

As a Category 3 Council in NSW, Central Darling Shire has been required to develop a suite of plans as part of the Integrated Planning and Reporting Framework. These plans must be in place and take effect from 1 July 2012.

As part of the IPR framework, Council must develop the following plans:

- Community Strategic Plan – a 10 year overall strategic plan for the Shire.
- Resourcing Strategy – comprising 20 year asset management plans, a 10 year long-term financial plan and a 4 year workforce management plan
- 4 year Delivery Program – incorporating the 2012/13 Operational Plan and Budget

To date, Council has prepared and adopted for the purposes of public consultation its Community Strategic Plan, Delivery Program, Workforce Management Plan and 3 Asset Management Plans (Transport, Buildings and Land Improvements, Stormwater).

It is expected that these documents will be adopted at the ordinary Council meeting on 29 June.

Since these reports were prepared, Council has also prepared Asset Management Plans for water, sewer and its plant & equipment assets. Council will consider these plans at its 29 June Council meeting.



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The development of the Long Term Financial Plan is running behind schedule due to the only recent completion of the Asset Management Plans. The AMPs will directly influence a number of elements of the LTFP and are integral to Council's future financial sustainability.

Development of the 2012/13 Annual Budget has been hampered by recent changes to personnel in the Finance Department of Council. Lack of continuity of Finance staff in the development of the budget has made it difficult to produce a budget with all normally expected elements, such as a balance sheet and revenue and expenditure by function/activity. It is expected that these missing elements will be completed in coming weeks.

Recommendation

That the report Integrated Planning and Reporting Update be received and noted.

11 2011/12 INTERIM AUDIT

Morse & Co have undertaken their interim audit and issued their interim audit letter to management. A copy of that letter will be provided to the Audit Committee at the meeting.

12 DEVELOPMENT OF RISK MANAGEMENT PLAN & RISK REGISTER

Council has not yet developed a risk register or a risk management plan. A workshop with Councillors and senior management was held in October 2010, however limited information was provided at those workshops and it was not possible to make further progress with the information provided.

It is appropriate that this matter be addressed in a more comprehensive fashion and that a risk register and risk management framework for Council be developed. The Division of Local Government's Internal Audit Guidelines detail the way in which risk management can benefit an organisation and how it should be an integral part of a council's everyday work.

In order for Council to integrate risk management into its day to day activities, it is firstly necessary to develop a greater understanding of the risks faced by Council and the threats they pose to the



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organisation. It is therefore recommended that a risk management plan and risk register be developed by Council's internal auditors UHY Haines Norton, in conjunction with senior management of Council.

Recommendation

That the Audit Committee recommend to Council that its internal auditor, UHY Haines Norton in conjunction with senior management, develop a risk management plan and risk register

13 AUDIT COMMITTEE WORK PLAN/MEETING SCHEDULE

The development of a work plan/meeting schedule for the Audit Committee will help both the Committee and management plan future audit activities and undertake necessary actions between meetings to ensure that the Committee's objectives are met.

Development of an internal audit plan is suggested by the Division of Local Government in its Internal Audit Guidelines, as being part of good practice for the internal audit function. Those guidelines state that the work program should be based on a risk assessment of a council's key strategic and operational activities. The guidelines also suggest that the audit plan should be prepared with input from the General Manager.

The guidelines also suggest that a rolling 3 year audit plan could be developed, which will provide for a greater ability to program required work and assess the adequacy of the internal audit resourcing.

Recommendation

That the report Audit Committee Work Program/Meeting Schedule be noted. That the Committee recommend to Council that it develop a risk-based 3 year audit plan.