

MEETING NOTICE

An Extraordinary Meeting of the
Risk & Audit Committee
will be held in the Level 2 Conference Room
Administration Centre,
Princes Highway Rockdale
on **Thursday 24 October 2019 at 6:30 pm**

AGENDA

1 ACKNOWLEDGEMENT OF COUNTRY

Bayside Council respects the traditional custodians of the land, elders past, present and emerging, on which this meeting takes place, and acknowledges the Gadigal and Bidjigal Clans of the Eora Nation.

2 APOLOGIES

3 DISCLOSURES OF INTEREST

4 REPORTS

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5 GENERAL BUSINESS

6 NEXT MEETING

Meredith Wallace
General Manager

Extraordinary Risk & Audit Committee

24/10/2019

Item No	4.1
Subject	Draft 2018-19 Financial Statements
Report by	Matthew Walker, Manager Finance
File	SF19/800

Summary

Council has prepared the draft 2018-19 financial statements and these have been submitted for audit in accordance with the Client Engagement Plan. The draft 2018-19 financial statements have been prepared in accordance with Project 2020 project plan and include remediation of issues that resulted in disclaimer of opinion on previous years financial reports. As detailed in Project 2020, it is expected the draft 2018-19 financial statements will receive a qualified audit opinion.

Council's Audit Director, Mr David Nolan from Audit Office NSW will provide an update on the status of audit at the meeting.

Officer Recommendation

- 1 That the attachment/s to this report be withheld from the press and public as they are confidential for the following reason:

With reference to Section 10(A) (2) General of the Local Government Act 1993, the attachment relates to the matters in this report are confidential, as it is considered that it is in the public interest that they not be disclosed to the public. In accordance with the Code of Conduct, the matters and the information contained within this report must not be discussed with or disclosed to any person who is not a member of the meeting or otherwise authorised.
 - 2 That the Risk & Audit Committee receives and notes the update from its Auditor.
 - 3 That the Risk & Audit Committee notes that the draft 2018-19 financial statements are to be tabled at the Extraordinary Council meeting 30 October 2019 for Council to resolve to sign the statement by Councillors and Management.
 - 4 That the Risk & Audit Committee notes that if there are any material changes to the draft 2018-19 financial statements as result of audit, that this will be identified in a report to a future meeting.
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Background

Council has prepared the draft 2018-19 financial statements and these have been submitted for audit in accordance with the Client Engagement Plan. The draft 2018-19 financial statements have been prepared in accordance with Project 2020 project plan and include remediation of issues that resulted in the disclaimer of opinion on previous years financial

reports. As detailed in Project 2020, it is expected the draft 2018-19 financial statements will receive a qualified audit opinion.

The remediated issues in the draft 2018-19 financial statements include:

- Employee Leave Entitlements – External contractor engaged to develop a financial model to recalculate leave entitlements (hours).
- Revaluation of Open Space / Recreation, Other Structures and Other Infrastructure asset classes – External company, Rapid Map, engagement for inventory, data collection and valuation process.
- Missing land parcels – Internal review of missing land parcels, title searches and recognised any land parcels identified as an asset, community land, operational land or land under roads post 30 June 2008.
- Improved internal controls – Business Process and Controls review, additional external resources engaged for quality review and manager attestations.
- Improved controls over Cash and Investments – Reconciliation process at standard required and independent quality review completed.
- Contaminated lands register – desktop audit completed and contaminated land register being maintained.

Further details on the remediation actions and the material estimates and judgements used in preparing the draft 2018-19 financial statements are included in attachment 2.

All accounting entries for the remediated issues have been reflected via the Income Statement in the draft 2018-19 financial statements.

The Audit Office of NSW has confirmed as per the Client Engagement Plan that the focus of the audit for the draft 2018-19 financial statements will be on the closing balance of the Balance Sheet items. The audit lead for the audit engagement met with Council's Manager Finance on 1 October 2019 to discuss this process and for input to the internal audit office technical paper for the audit process. This focus should result in confidence with closing balances for 2018-19, which become the opening balances for 2019-20 and enable a return to an audit process over the entire 2019-20 financial statements.

The draft 2018-19 financial statements and associated working papers were submitted in full to the Audit Office of NSW on 20 September 2019. Council has utilised a file share provided by the Audit Office of NSW to provide significant records in softcopy via this method to assist in streamlining the audit process.

The audit team commenced audit activities onsite and remotely on 8 October 2019.

Council was advised by the Audit Director on 14 October 2019, that the required audit process would not be completed by the end of October 2019 and that Council would need to lodge an extension request with the Office of Local Government by 17 October 2019.

Council's Audit Director, Mr David Nolan from Audit Office NSW will provide an update on the status of audit at the meeting.

Attachments

- 1 Draft 2018-19 General Purpose Financial Reports (confidential)
- 2 Estimates and Judgements for 2018-19 Draft General Purpose Financial Reports (confidential)
- 3 Draft 2018-19 General Purpose Financial Reports Summary (confidential)

Extraordinary Risk & Audit Committee

24/10/2019

Item No	4.2
Subject	Tender - Internal Audit Panel - Evaluation
Report by	Natasha Balderston, Internal Auditor
File	F19/672

Summary

Transitioning to a partly outsourced internal audit service, Internal Audit exclusively used the services of BDO East Coast Practice to complete its audit program for FY2018/19. In order to provide greater flexibility, competition, and capability, Internal Audit recommended that a panel be established to provide audit services.

As a result of a tender process, Council received tenders from seven audit firms. The Evaluation Panel reviewed the tenders against agreed criteria. The Evaluation Panel also considered the scope of the audit program and an appropriate balance between the number of providers to be on the Panel and sufficient work allocation to ensure a strong partnership between Council and the providers.

Accordingly, the Evaluation Panel considered an appropriate balance was to have two providers on the Panel, however, other options for more panel members were provided to the Executive Committee. The Executive Committee agreed for greater flexibility and agreed on a three firm panel consisting of Centium Group, Grant Thornton Australia Ltd and BDO East Coast Practice.

Internal Audit also recognised that the indicative quotes to complete the audit program from the seven tenderers differ significantly and all the quotes exceed the current 2019/20 budget allocation. While this did not impact on the tender decision, a separate report on funding will be presented to the Executive Committee at a later date.

Officer Recommendation

That the report be received and noted.

Background

For the past 12 months, BDO East Coast Practice has been providing internal audit services to Bayside Council. This has been operating effectively but as the audit program progressed, Internal Audit identified the resource capacity to undertake the program by one firm may be stretched and that there may be other firms that may possess better specialised skill to complete some of the audits on the 2018/19 audit program. Internal Audit sourced an alternate audit firm to complete the DA/VPA/Contributions audit for these reasons, however, there was some delay in the start and completion of the audit.

In order to ensure greater flexibility, capacity and capability to complete the approved 2019/20 Internal Audit program, it was agreed to establish a panel of suitable Internal Audit service providers.

The tender was advertised in the Sydney Morning Herald, the Southern Courier and the Leader for a minimum of 21 days. The tender produced responses from the following seven audit firms:

- 1 Centium Group
- 2 RSM Bird Cameron
- 3 KPMG
- 4 Grant Thornton Australia Ltd.
- 5 O'Connor Marsden and Associated Pty Ltd.
- 6 Crowe Horwath
- 7 BDO East Coast Practice

The responses from the seven audit firms were evaluated against the following criteria:

- 1 Capability and experience in providing internal audit services to similar organisations (30%).
- 2 Capacity within its current resources to carry out the audit program (30%).
- 3 Commitment and experience in providing quality assurance over audit work and reports (20%).
- 4 Competitively priced (20%).

The Evaluation Panel consisted of the Manager Governance & Risk, Manager Finance and the Internal Auditor. Evaluations were completed individually and then discussed as a group. As the individual scorings were quite similar, consensus on a group scoring for each non-financial criteria was easily reached.

While most of the tenderers were competitive in the non-financial criteria, the area they differed most significantly was in their costing. To ensure that the evaluators were able to compare effectively, tenderers were requested to cost each audit on the approved 2019/20 audit program and indicate the personnel in their team that would complete the audit. While the seniority of personnel were the same across the tenderers, there was a difference of about \$150,000 between the quotes received. It is important to note these are indicative prices only and may not represent the actual cost of the complete audit program. Nevertheless, as the indicative cost exceeded the 2019/20 budget allocation for Internal Audit, Internal Audit will provide a further report to the Executive Committee on the funding issue.

The panel discussed the number of tenderers to make up the audit panel and the consensus was that two audit firms would be most appropriate balancing the size of the program and the creation of a strong partnership with the providers. It was considered there is enough work to be distributed between two providers and ensure they will keep Council as a priority client. Also there is an incentive as both providers will be aware that Council has a choice. Importantly, the audit panel tender clearly stated that *“Council may also instruct firms that are not on the internal audit panel and no objection can be made by any member of the internal audit panel to the giving of such instructions”*. This would allow Council to access the services of other audit firms if the two selected are not able to undertake the work.

Based on the evaluation against the criteria and the consideration of the optimum number on the Audit Services Panel, the evaluation panel recommends that two audit firms on the Panel consist of:

- Grant Thornton Australia Ltd
- BDO East Coast Practice.

For completeness, the Executive Committee was provided with other options should it consider that the Panel should consist of a larger selection group.

Option 1 – Top Three Audit Firms

This option is based on a panel consisting of the top three audit firms on the evaluation list. The third firm to form the panel, based on the scoring, would be KPMG. It should be noted that KPMG provided the most expensive quote of all the tenderers.

Option 2 – Three Audit Firms – competitive pricing

This option is based on the top three on the evaluation list excluding the most expensive tenderer. In this case the third firm to form the panel would be Centium Group. Its pricing is competitive to that of Grant Thornton Australia Ltd and BDO East Coast Practice.

Option 3 – Seven Audit Firms

The quality of the tenderers does allow Council to place all 7 tenderers on the Panel and then select the most appropriate for the particular audit. This provides the greatest flexibility but comes at the risk that Council may not be treated as a priority client and the most appropriate firm may not make itself available. The allocation of work to any one firm is not guaranteed and may be minimal.

The Executive Committee deliberated and considered a larger group based on competitive pricing would be appropriate and decided on Option 2 above.

Attachments

Nil

Extraordinary Risk & Audit Committee

24/10/2019

Item No	4.3
Subject	Revised Risk & Audit Committee Meeting Schedule for Financial Year 2019/20
Report by	Natasha Balderston, Internal Auditor
File	F12/156.002

Summary

This report provides a revised meeting schedule for the remainder of the Risk & Audit Committee meetings for financial year 2019/20.

Officer Recommendation

That the revised meeting schedule for the remainder of the Risk & Audit Committee meetings for financial year 2019/20 is received and noted.

Background

At the Risk & Audit Committee meeting on 23 August 2019, Internal Audit proposed a meeting schedule for financial year 2019/20 as follows:

- 1 22 August 2019
- 2 24 October 2019 (extraordinary meeting)
- 3 21 November 2019
- 4 20 February 2020
- 5 21 May 2020
- 6 23 July 2020

The Committee requested the schedule be streamlined to reflect that meetings will occur on the fourth Thursday of the meeting month. As a result, the revised meeting schedule for the remainder of the financial year 2019/20 is as follows:

- 1 28 November 2019
 - 2 27 February 2020
 - 3 28 May 2020
 - 4 23 July 2020
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Attachments

Nil