

Gladstone Regional Council Business Improvement Committee Annual Report 2017/2018



Ross Cook, Committee Chairperson

Status report for Gladstone Regional Council from the
Gladstone Regional Council Business Improvement
Committee for the 2017/2018 financial year

Gladstone Regional Council

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1. Background

Gladstone Regional Council's Business Improvement Committee provides an independent forum where representatives of Council, independent members and management work together to fulfil specific governance responsibilities that contribute to compliance responsibilities and improved performance of the organisation.

The Business Improvement Committee was established in accordance with Section 157 of the Local Government Regulation 2012 and Section 105 of the Local Government Act 2009 and operates within the scope of Council's Business Improvement Policies.

The Business Improvement Committee has a key role in assisting Council to fulfil its governance and oversight responsibilities in relation to a number of areas including, financial reporting, legal and regulatory compliance, internal control systems, risk management and audit functions.

The Committee meets quarterly. This report covers the activities of the Committee for the 2017/2018 financial year.

2. Membership

The Committee is bound by legislation to consist of at least three, but no more than six members, one of whom is a designated financial expert. One, but no more than two, of whom shall be Elected Representatives of Gladstone Regional Council.

The Committee currently has five members. They are:

- Ross Cook, External Member, Chairperson
- Carolyn Eagle, External Member, Committee's designated Financial Expert
- Kerry Phillips, External Member, Financial Expert to replace Carolyn Eagle from 2019
- Cr Rick Hansen, Councillor
- Cr Poya John (PJ) Sobhanian, Councillor.

Each member of the Business Improvement Committee brings specific skill sets and experience to their role and actively contributes to Committee business.

In early 2018, Council appointed Kerry Phillips as an external representative to the Committee in anticipation of Carolyn Eagle completing her tenure at the end of 2018. Kerry's appointment followed an expressions of interest process to recruit a Member with financial expertise and Kerry comes to the Committee with considerable financial experience in both the public and private sector. The Committee extends the warmest welcome to Kerry in this role.

In late 2017, Council also appointed Cr. Kahn Goodluck at proxy delegate to the Committee to fill any absences of the two nominated Councillor representatives on the Committee. The Committee welcomes the appointment and is looking forward to working with Cr. Goodluck in this capacity.

Council personnel including the Chief Executive Officer, General Manager Finance Governance and Risk, Senior Internal Auditor and other select officers attend the Business Improvement Committee Meetings

as observers to provide relevant information pertaining to the Committee's Terms of Reference. Council's External Auditors are also invited to attend each meeting in person or by teleconference. This financial year, the Committee has again welcomed the participation of the Queensland Audit Office who have been observers at the Committee's meetings.

The Committee was delighted to welcome broader Councillor and Officer attendance at meetings during the year with a number of Councillors and staff members attending as Observers. The Committee will continue to find ways to engage with Council about its needs and to investigate opportunities to improve.

The Committee continues to meet privately with internal and external auditors at each meeting to allow discussion on any significant issues or areas of interest within the scope of the Committee's or Auditor's areas of responsibility.

3. Summary of Committee Activities

The Business Improvement Committee maintains an active monitoring and oversight role over the following and provides direction to management where appropriate and as requested:

3.1. Financial Statement Preparation and Disclosure Compliance

The Committee reviewed the draft 2017 statutory financial statements, making appropriate enquiries of management to satisfy itself that the Committee's duties under the Local Government Act 2009 and the Local Government Regulation 2012 had been complied with.

Council achieved the deadline of 31st October, 2017 for the compilation, approval and presentation of the statutory financial statements to the external auditor.

Council received an unmodified audit opinion on its statutory financial statements from the Queensland Audit Office. This signifies that the contents of the financial statements represented a materially true and fair view of Council's financial position as at 30 June 2017. An unmodified audit opinion is the best outcome achievable for an audit of financial statements.

3.2. External Audit

The Queensland Audit Office's appointed external auditors, William Buck continued in the external audit role during 2017/18.

The Committee met, and convened teleconferences, with Council's external auditors as part of its quarterly meeting agenda. General matters of interest and Audit's findings from the work they conducted to gain assurance over the accuracy of the financial statements for the year ended 30 June 2017 were discussed.

The Committee monitored the implementation of external audit recommendations as part of its quarterly agenda reports.

3.3. Internal Audit

Internal Audit reports to both the Chief Executive Officer (via Manager People and Performance / General Manager Finance Governance and Risk) and the Business Improvement Committee. The current reporting arrangement has continued to work well during 2017/2018 and has not led to any impairment of Internal Audit independence or objectivity. The Business Improvement Committee continues to monitor the independence and objectivity of Internal Audit.

The planned Audit Program for 2017/18 was as follows:

Year 2017/2018 Specific Audit Activity	Type of Audit	Duration (weeks)	Department
Adherence to project plans focussing on the areas of project completion on time, and within budget.	Compliance	1	Engineering
Sample - confirm mandatory requirements of position descriptions are complied with by the appointed officer to that position	Compliance	1	Office of the CEO
Sample - new and amended legislation, regulations, and Council related by-laws and directives are operational across the applicable areas of Council	Compliance	1	Office of the CEO
Review implementation on new asset management system and internal controls	Compliance	8	Engineering
Review the "strategies" adopted, identifying the strategies that have been adopted, reviewing compliance with the adopted strategy, the business case for the strategy and the legislative compliance of the strategies. (eg Pest management strategy)	Compliance	5	Planning and Environment
Essential services Business Continuity Planning (water, waste, roads) readiness, recovery and/or compliance with Disaster Act Requirements. Review ICT BCP Processes	Compliance	5	Engineering/ Corporate and Community Services
Accounts Receivable processes (debtors)	Compliance	4	Chief Financial Officer
Depot management practices	Compliance	4	Corporate and Community Services
Review reporting and conformance to Statement of Corporate Intent for Gladstone Airport Corporation	Compliance	4	Corporate and Community Services
Review of previous Internal Audit Recommendation implementation	Compliance	1	
Unplanned audit activities		1	
Total		35 weeks	

Members raised concerns at the March 2018 meeting regarding the lack of progress with the 2017/18 Internal Audit Program and questioned if there is sufficient resourcing being made available to the internal audit function.

The Committee was satisfied with advice that the 2017/18 year has been unusual in terms of the need to redeploy the internal audit resource to backfill some other key positions in the People and Performance Unit and then to the Organisation Redesign Project. Members were prepared to accept that it has been an extraordinary set of circumstances in the current financial year but suggests that Council may wish to carefully consider its redeployment and/or contract options in respect to internal audit in future years so that the full audit program can be delivered.

Council seconded a temporary replacement for the Senior Internal Auditor in late 2017 and adopted a revised audit program for the first half of 2018 as follows:

Year 2017/2018 Specific Audit Activity	Type of Audit	Duration (weeks)	GM Group
Adherence to project plans focussing on the areas of project completion on time, and within budget.	Compliance	1	Operations
Sample - confirm mandatory requirements of position descriptions are complied with by the appointed officer to that position	Compliance	1	People, Culture & Safety
Review the "strategies" adopted, identifying the strategies that have been adopted, reviewing compliance with the adopted strategy, the business case for the strategy and the legislative compliance of the strategies. (eg Pest management strategy)	Compliance	5	Customer Experience / Strategy & Transformation
Review of Tendering Process - Bio Solids	Compliance	1.5	Operations / Strategic Asset Performance
Review of GRC's Investigation process	Compliance	2.5	Customer Experience
Depot management practices	Compliance	4	Operations
Review of previous Internal Audit Recommendation implementation:	Compliance	1	
Review of Fuel Audit Recommendations		1	Operations / Finance Governance & Risk
Unplanned audit activities		1	
Total		18 weeks	

The quality of the internal audits continue to be of a high standard, yielding benefits to the organisation through the implementation of controls in response to identified weaknesses and the implementation of business improvement opportunities.

The Committee continues to monitor the implementation of internal audit recommendations on a quarterly basis and has focussed its attention on those audit issues that remain outstanding past accepted due dates and those that have longer due dates for completion. On balance, the Committee is satisfied with management's attention to the implementation of audit recommendations.

3.4. Risk Management

Whilst it is Management's responsibility to actively manage the organisation's risks, the Business Improvement Committee provides the additional oversight in this area to challenge the reasonableness of management's assumptions.

The reporting system for organisational risks has been further improved during the 2017/18 financial year with the quarterly progress reports to the Committee now only containing the high-level oversights on strategic and fraud risks in line with Council's directives.

Whilst risk management continues to mature within the organisation the Committee encourages Council to continue to develop in this area. The organisation has recognised that the next step in the risk management journey is to improve its risk management culture ensuring that there is organisation-wide acceptance that risk management is everyone's responsibility and it is considered and integrated into everyday operations. It will be a challenge for the organisation over the coming period to achieve that cultural shift.

Council may also wish to consider how audit can be further aligned with risk management. One indicator of a mature risk management system is its integration with audit so that the organisation has a more 'assurance' based risk management system through a program of regular testing by audit, of risk control measures.

3.5. Business Improvement Committee Self-Assessment / Councillor Survey

The Business Improvement Committee Charter requires that members assess the Committee's performance in meeting its objectives.

This year the Committee resolved to change the self-assessment survey and Councillor survey period out to two yearly reviews given that past survey results from 2011, 2013, 2014, 2015 and 2016 have been very consistent with positive results. The next self-assessment and Councillor surveys will be conducted in the second half of 2018.

The Committee did conduct an assessment of its workplan and activities against its responsibilities as defined in Council's policy. Members consider that the workplan is meeting all delegated responsibilities under the policy.

3.6. Legal, Legislative and Confidential Matters

The Business Improvement Committee sought and received at each meeting, a briefing from the Chief Executive Officer on significant matters facing Council at that time and the actions taken by management in response.

The Executive Management Team has been asked to provide the Business Improvement Committee with formal representations to certify their Directorate's compliance with relevant legislative requirements and Council's policies. Each member of the Executive Management Team provided the Business Improvement Committee with the appropriate attestations covering the financial years end 30 June 2013, 2014, 2015, 2016 and 2017.

3.7. Business Improvement Committee Policies

Council did not review its Business Improvement Policies this financial year therefore the Committee continued to operate under the existing direction.

3.8. Asset Management

The Committee continued to focus increased attention on asset management this financial year through quarterly reports.

Council's transition to its new Asset Management software in the 2015/2016 financial year identified issues and challenges associated with obtaining accurate valuation data for the purposes of financial reporting. The Committee is of the view that there is still considerable work to be done in this area.

This financial year some issues have been identified with some road asset values as reported in the March 2018 Asset Management Valuation Methodology Report to the Committee and which will be corrected through revaluation in the 2017/18 financial statements.

The Committee was pleased to note the Chief Executive Officer's advice that the development of effective asset management practices is one of the highest priorities of the organisation in the short term and it will be resourced accordingly. The goal being to not only achieve compliance with the Asset Management International Standard, but to also ensure the development of a system that efficiently and effectively informs Council's decision-making.

It is positive that the organisation has recognised that there are issues that need to be addressed and it is prepared to make the changes required to facilitate improvements. The Committee is pleased to see the new direction and approach being taken.

Members would again like to acknowledge and extend their appreciation to the staff involved in asset management who remain strongly committed to ongoing improvements and best practice.

3.9. Procurement and Contracting Practices

The Committee requested quarterly reports on procurement and contracting practices during the financial year as the organisation implements a more rigorous framework around its procurement activities to ensure compliance with the *Local Government Act 2009* and *Local Government Regulation 2012*. It is pleasing to see continued improvement and the Committee looks forward to monitoring further progress in this area.

3.10. Organisation Redesign

The Committee has been briefed on the Organisation's proposed restructure which will be finalised by the end of the current financial year. The Committee has noted that the primary driver for the restructure is to develop a more sustainable operating model for the organisation that focuses its resources towards sustainable management of its considerable infrastructure base and in ensuring the long term financial sustainability of the organisation for current and future residents.

It is acknowledged that there is an element of risk in restructuring any organisation and members will be interested in learning more about the operating model options considered and the final adopted structure.

3.11. Compliance Management

The Committee remains concerned that Council does not have a fully effective 'Compliance Management System' by which the Council and Officers can be totally confident that all necessary requirements applicable to relevant legislation, local laws, policies, corporate standards, directives, and conditions are reviewed, understood and communicated. The Committee understands and appreciates that there are some formal and informal compliance management processes in place, but it recommends that consideration be given to a more comprehensive, structured and centralised compliance management system to enable improved risk mitigation in this area.

4. Conclusion

Statutorily the Business Improvement Committee in its current form is fulfilling the legislative requirements set out in the *Local Government Regulation 2012*. The Committee is also performing many

of the requirements advocated in Better Practice Audit Committees Guidelines and has considered the perspectives of the Queensland Audit Office about Audit Committee effectiveness.

The Committee continued to develop in its role for Council and acquit its responsibilities under its Terms of Reference. Member and observer contributions are valued and are demonstrated through effective, collegiate working relationships supported by appropriate accountability structures.

As Chairman, I would like to express my gratitude to both Committee members and observers for their contribution, transparency and engagement with this important governance process. Without this, the effectiveness of the Committee would be significantly diminished.

Report Prepared by: Ross Cook, Business Improvement Committee Chairperson

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