



MINUTES

Audit & Risk Improvement Committee (ARIC)

held at

Maldhann Ngurr Ngurra,
Lithgow Transformation Hub
Committee Room
Cnr Bridge & Mort Streets, Lithgow

on

Tuesday 12 March 2024

at 2:00 PM

ORDER OF BUSINESS

1. Acknowledgement of Country	3
2. Attendees	3
3. Apologies	3
4. Declaration of Interest	3
5. Confirmation of Minutes.....	3
6. Business Arising from Previous Minutes	4
6.1. Committee Recommendations Tracking	4
7. Agenda Reports	4
7.1. Compliance.....	4
7.2. Internal Audit.....	5
7.3. External Audit.....	8
7.4. Internal Controls	9
7.5. Fraud and Corruption	9
7.6. Financial Management.....	10
7.7. Governance	10
7.8. Risk Management.....	11
7.9. Service Reviews and Business Improvement.....	12
7.10. Strategic Planning.....	12
8. General Business	13
9. Meeting Close	13

The Chairperson declared the meeting open at 2:06 pm.

1. Acknowledgement of Country

The Chair acknowledged Wiradjuri Elders past and present of the Wiradjuri nation - the original custodians of the land on which the Lithgow's communities reside and extended respect to our neighbouring nations.

2. Attendees

Members (voting):

Ron Gillard - Independent Member (Chair)
Kylie McRae - Independent Member
Deborah Goodyer - Independent Member
Cr Maree Statham - Mayor

Officers:

Craig Butler - General Manager
Ross Gurney - Director Finance and Governance
Raj Singh - Governance & Risk Manager
Jonathon Reid - Finance Services Manager
Sharni Channing - Management Accountant
Ally Shelton - IT Manager

Invitees:

Mary Yuen - Director - Financial Audit - Audit Office NSW
Gabriel Faponle - Crowe (previous external audit contractor)
Trinity Newton - Minutes

3. Apologies

Apologies received: Cr Darryl Goodwin - Deputy Mayor

4. Declaration of Interest

The Chair called for any declarations of interest.

There were no declarations of interest made.

5. Confirmation of Minutes

The Committee acknowledged the draft minutes of the ARIC meeting held on 28 November 2023 which were presented to the Ordinary Meeting of Council 30 January 2024 - Min. No. 24-16.

ACTION

THAT the Minutes of the Audit Risk and Improvement Committee meeting of 28 November 2023 be taken as read and confirmed.

SECONDED: Councillor M Statham

MOVED: Deborah Goodyer

6. Business Arising from Previous Minutes

6.1. Committee Recommendations Tracking

The Chair called for any matters arising from previous minutes.

The Committee reviewed the Committee Recommendations Tracking document.

The Chair noted the out of session distribution of his draft ARIC Workplan template and requested any initial feedback on the content be provided by the end of March 2024. Upon finalising the base template, the Committee and Management will be required to review and agree the timing components of the ARIC Workplan at the June meeting, along with any supplementary items for Council that need to be added. It was also noted that the rationale for the 4 year ARIC Workplan is predominately for the Chair to determine and acknowledge that everything under Schedule 1 of the Terms of Reference has been reviewed by the Committee during each term of Council.

ACTION / RECOMMENDATION

That the Committee note the report on the Committee Recommendations Tracking and current Four Year Workplan.

MOVED: Kylie McRae

SECONDED: Deborah Goodyer

CARRIED

Prior to commencing on the review of the item of Agenda Reports, the Chair explained that it was generally felt between the Independent Members that the business papers needed a little more structure and sequencing, and that he will endeavour to review that with the Director Finance and Governance out of session and before the next set of papers are prepared.

7. Agenda Reports

7.1. Compliance

There were no significant compliance matters to report.

The Committee were informed that Council is working to strengthen internal controls, noting that LCC has an improvement program in place that checks through the obligations of the compliance calendar.

The Committee were interested in follow-ups on compliance. It was explained that a reminder to update compliance tasks in Pulse is allocated to responsible staff with an alert sent monthly.

ACTION – *Requires confirmation that follow-ups are being actioned (Raj Singh to investigate).*

It was asked if Council has a process to identify the impacts of legislative updates on policies. The Committee were informed that legislative changes should be considered when policies are reviewed.

ACTION - This information to be covered in the proposed Policy Development Guideline which is in the list of Governance & Risk projects (July to Dec 2024).

Kylie McRae enquired as to the internal control next steps - this will be a result of the internal audit outcomes which will occur from July to test internal controls generally, as well as general compliance activities.

ACTION / RECOMMENDATION

THAT the Committee note the report on the legal and compliance framework and current improvement actions.

MOVED: Councillor M Statham

SECONDED: Deborah Goodyer

CARRIED

7.2. Internal Audit

Cyber Security – Information Security Gap Analysis

The IT Manager presented to the Committee on the outcomes of the Information Security Gap Analysis.

Much of the work had been previously carried out on the internal audit process with a third party coming into complete a gap analysis.

The incident response plan has not been finalised, however, is a high risk priority.

Awareness training - piloting of the Mimecast program is being rolled out. Some technical issues have occurred and are being addressed.

After gap analysis was carried out, a CrowdStrike incident control was rolled out. Annual penetration testing was also carried out. CrowdStrike operated effectively.

Note: CrowdStrike delivers incident response and forensic analysis services that are designed to help the organisation understand whether or not a breach has occurred, and to respond and recover from a breach with speed and precision to remediate the threat.

Penetration testing results:

- No access was gained. No Critical alerts, however, four 'high' areas were identified and have subsequently been addressed.
- Web testing - no access was gained. The host had numerous protections that stopped all attempts.
- Some patches were identified that needed to be rolled out.
- A total of 17 issues were identified.

The Committee were given an overview of the new CRM dashboard system that is being rolled out to staff.

Feedback has been received from supervisors with the overall response being that they gain value from the new system. A different dashboard for the Customer Service Manager is being created.

Staff can 'complete' the CRM requests, but the Managers are the only ones that can 'close' the CRM request. Marking requests as 'completed' stops the clock that monitors request time performance.

ACTION - Management Actions require update for each outstanding recommendation on the Security Gap Action List. Version control on the Action List is also required moving forward, e.g. "Last updated". Current status commentary to also be included in updates.

ACTION - A dashboard like CRM for those items that go into PULSE was discussed and asked to be reviewed.

ACTION - A standard template format across the board was requested to be adopted for each audit Action List spreadsheet.

2023/24 Internal Audit Plan Projects

ACTION - It was requested that the strategic IA plan summary table be included in future reports.

When the next revision of strategic internal audit plan is put together, to cover the next term of Council, the Committee requires the basis for selecting those audit projects as well as a brief scope of the proposed internal audit. These would ideally be summary pages attached to a timetable.

The strategic IA plan needs to be developed and reviewed on a holistic level including Council strategy and risk assessment. It can exclude procurement and start from July 2024. The current strategic plan was based on the Operational/Strategic risk register and what ICAC/Audit NSW has considered high-risk for the next few years.

A progress and reasonableness review would be carried out at the end of each year. A single year audit plan tends to be a good practice. Include - where did the risk come from, was it present last year? Some items will not be based on risk but are there standard recurrent audit areas.

It was suggested that the current residual internal audit plan needs to be reviewed again to ensure that the items are refreshed and are still relevant to Council.

ACTION – Governance & Risk Manager to further review the internal audit plan. The plan is to be brought back to the September meeting to review and approve an updated plan for the next Council term. Deb/Kylie to send a sample of what they would like to be presented for September ARIC meeting.

In-house items need to be included in the plan (where known) - the plan should scan coverage.

The strategic internal audit plan will be reviewed and approved by the ARIC, then endorsed by Council. The ARIC must approve any subsequent changes proposed by management/Council, or as a result of the Committee's annual review of the plan.

Procurement Audit

The Committee raised and discussed how the majority of suppliers for internal audits appear to only be interested in programs that have a number of audit projects. The Committee suggested that this EOI process be re-evaluated to review the proposed internal audit program with a panel of providers. From that process, the four year plan could be developed with the most appropriate organisation. Need to also consider other in-house reviews to occur for that period.

Project has been awarded to Centium, with the 10 week audit process to commence shortly and should be complete in mid-June.

ACTION - *Procurement Audit – If deemed beneficial to Council, ARIC members are happy to look at the draft audit report prior to finalisation.*

ACTION - *Internal Audit: ARIC suggested that a panel can be established to outsource the development of the four year audit plan. In that regard, the undertaking of the entire internal audit plan can then be outsourced to one provider.*

Customer Service Review Action List

The Customer Service Review action list was reviewed.

This is a long standing review which has been impacted by limited staff resourcing over the past few years. LCC is looking at a broader CS improvement project in conjunction with the new Director People and Place and the Building and Development Dept.

ACTIONS -

- *Details of the broader CS improvement project to be presented to the Committee once finalised.*
- *Implement standard Action List processes for reporting completed tasks (ie. report 'completed' tasks then remove them in subsequent reports) and utilising a standardised template as discussed previously.*
- *The Customer Service Review Action List will need to be reviewed and updated to reflect current status of the review recommendations.*
- *Head of Internal Audit to test and obtain evidence that the more critical and significant actions are in fact 'complete'. This evidence does not need to be provided to the Committee as the Head of Internal Audit will attest to the Committee that actions have been completed based on their testing.*

ACTION – *OLG Risk Management & Internal Audit Guidelines have mandated items – Kylie McRae will work with LCC staff on a toolkit to prepare for this.*

Rating Review Actions

Rating Review Actions come from the Rating Review which was part of the SRV submission. Rates harmonisation was one aspect of the rating review.

This is an ongoing body of work that will straddle several years, over the new council term.

ACTION - *All comments are from other Action Lists are applicable to this one also.*

New OLG Guidelines – Internal Audit Requirements Update

IA Charter – all comments ticked off and ready for Council approval.

ACTION - *ARIC Terms of Reference to be reviewed and updated, particularly Section 5 (Composition and Tenure) will need to be updated to have one Councillor (not the Mayor) as a non-voting member. Also review for consistency with the final OLG template TOR. The updated TOR is to be circulated to members for review and endorsement prior to re-adoption by Council before the end of June to ensure compliance by 1 July 2024.*

ACTION / RECOMMENDATION

THAT the Committee:

1. Note the report on the internal audit program.
2. Endorse the final draft of the Internal Audit Charter and for it to be presented to Council for review and adoption.

MOVED: Kylie McRae

SECONDED: Councillor M Statham

CARRIED

7.3. External Audit

The Committee requested an update from the Audit Office on the appointment of a new external audit contractor to Council. The Committee were advised that Intentus, with Leanne Smith as Principal, had been awarded the contract, and that Karen Taylor will be the new Audit Office oversight director.

It was advised that the Annual Engagement Plan for FY24 had not yet been finalised, and that a meeting with Leanne and Karen would be taking place on 14 March to further this.

A handover from Crowe to Intentus has been carried out and overseen by the Audit Office.

The Committee thanked Mary and Gabriel for their support and input over the past few years.

Mary and Gabriel left the meeting at approximately 3:30pm.

The Final Audit Management Letter was received and distributed as a late report to Members on 4 March. It was noted that there were only a three low risk items to be addressed.

Annual leave levels - LCC's policy aligns with the award. Reporting on the levels of excessive leave is being re-instated.

The Mayor left the meeting at 3:41pm due to a prior engagement.

ACTION - *progress the 2024 Audit Engagement Plan, with a focus on achieving the timetable and ensure that there is no delay in starting the preparatory work.*

Review of the audit action list - no update will be required moving forward due to the immaterial and inconsequential nature of the audit issues identified in the letter.

The proposed 50% increase in the audit fee for FY24 was briefly discussed with the Chair noting that most councils were experiencing similar increases where the Audit Office had new or renewed contractors appointed following the ending of contract terms. The underlying driver of around 40% appears to be a catch up and delayed recognition of audit hours actually required by contractors to meet the Audit Office's demands.

ACTION / RECOMMENDATION

THAT the Committee:

1. Note the update on Council's external audit program.
2. Request that the final Annual Engagement Plan be distributed to the members when available.

MOVED: Kylie McRae

SECONDED: Deb Goodyer

CARRIED

7.4. Internal Controls

The Conflict of Interest policy was not able to go the March Councillor Information Session and will need to be rescheduled and considered at a future council meeting.

ACTION / RECOMMENDATION

THAT the Committee note the update on Council's internal controls.

MOVED: Deb Goodyer

SECONDED: Kylie McRae

CARRIED

7.5. Fraud and Corruption

Fraud Risk Assessment - first section is almost a listing of the fraud control attributes, however, did not reflect how the attributes were to be implemented at Council. In the opinion of the Committee, the document does not give enough guidance to staff how fraud control works at Council; how senior management demonstrate their commitment, etc..

Kylie McRae was concerned that ICAC views were not considered to a full extent. It was explained that the Fraud Control Plan was based on Audit NSW 10 attributes and strengthened via information from ICAC guidelines. It was kept simple to enable staff to understand.

Deb Goodyer also thought Audit NSW document was clearly set-out and easily read.

Separating policy from action plan and strategy so that external parties (such as fraudsters) are not informed of what is being looked at from the website.

ACTION: ARIC members to forward examples of Fraud Risk Assessments to Management to review and consider in finalising this.

The Committee asked about the referenced 'risk of equipment borrowed or stolen without permission'. The responsibility for the Store has been transferred to Finance. Improvements have been put into place following recent stocktakes.

Each division of Council can do an internal audit review for fraudulent activity. Assigning responsibility to specific areas to council can be considered.

For all risks, the residual fraud risks are listed as acceptable. For 'medium' residual risk rating, it is a higher than expected level to be considered as 'acceptable'.

The listed 'existing controls' don't always describe a control and includes commentary on why this is at a particular level and why it is being accepted. Should there be an action plan with a level of risk?

ACTION - Research other council fraud risk templates. Re-assess LCC current process with other peers.

Council should include 'fraud risk' wherever possible within the internal audit project scopes.

The standard states that a fraud control assessment review is required biennially unless something substantial occurs.

ACTION / RECOMMENDATION

THAT the Committee note the report on fraud and corruption controls.

MOVED: Kylie McRae

SECONDED: Deb Goodyer

CARRIED

7.6. Financial Management

The savings on salaries and wages were noted.

Investment policy - changes and resolution of council were noted.

The list of Internal controls was noted and discussed. No known deficiencies in internal controls and no issues with internal controls were raised in the audit management letter.

The Committee recognised that asset revaluations are generally the one thing that needs to be completed by the end of financial year and that external influences are what may bring issues in the end of financial year reporting.

An assessment of the need for a pre-audit ARIC 'special meeting' will be considered at the June meeting following an update from management on the financial statement preparation procedures and whether agreed timelines have been achieved.

ACTION / RECOMMENDATION

THAT the Committee note the financial management report.

MOVED: Deb Goodyer

SECONDED: Kylie McRae

CARRIED

7.7. Governance

Update on Conflicts of Interest

A discussion was held on the difference between the Pecuniary Interest Disclosure and a Conflict-of-Interest disclosure to ascertain the difference in the current process.

ACTION - Conflict definition – suggested use of ICAC definition. A guide that accompanies the policy to be investigated.

Update on Policies due for Review

It was noted that a significant number of SWP's and policies were overdue for review.

Concerns were raised about the follow up process given the number of outstanding items, coupled with the provided reports showing last follow ups at end of October 2023.

ACTION - *Update on policies due for review - suggestion that there needs to be a review of who is responsible for updating each outstanding SWP/policy, more timely follow ups, and if any can be rescinded or amalgamated to reduce the number.*

Recruitment of a New General Manager

The Committee were given an update on the current process which the Council is following to recruit a new General Manager, noting that a selection panel has been established and the agent has been selected to commence the recruitment.

ACTION / RECOMMENDATION

THAT the Committee note the report on key governance processes.

MOVED: Kylie McRae

SECONDED: Deb Goodyer

CARRIED

7.8. Risk Management

The new Risk Register has now been uploaded into PULSE.

Policies with 'Final Draft' on them should have these words removed after adopted by Council.

The recommendation for action list item at bottom of third page of the report titled "Strategy and Governance - Risk Appetite Statements (RAS) needed to understand Council risk tolerance" was presumed to require Councillors involvement in agreeing Council's risk appetite in line with standard practice.

ACTION: *Risk appetite statements review with Councillors to occur after the September 2024 election.*

System & Intelligence - External data sources not defined - the ARIC asked how this was being addressed and achieved. What procedure is in place for this to be achieved?

Monitoring and review falls to the ERC. This needs to be changed to tasks on PULSE.

Process - Prioritisation of risks and potential impacts - every business case that is created has a level of risk assessment carried out.

ACTION - *ERM Maturity Review report – completed actions can be taken out of the report, and that previously discussed standardisations be applied to this Action List.*

ERM Process Guidelines are being updated - expected completion date of 30/6/2024 and requested to be presented to ARIC in September.

Dam safety matters were discussed.

CNSWJO Modern Slavery Risk Assessment Project - the NSW Amendment Act 2021 was discussed. Action has been taken to update Council's website. Committee was advised that LCC is compliant with the Act.

ACTION / RECOMMENDATION

THAT the Committee note the report on risk management.

MOVED: Deb Goodyer

SECONDED: Kylie McRae

CARRIED

7.9. Service Reviews and Business Improvement

Update on Service Management Framework implementation was received by the Committee, noting that a meeting will be held with the consultant in the next week.

Service profiling to be completed by staff by 15 March 2024. A plan is in place to complete those which are not currently finalised.

Customer Service benchmarking was discussed by the Committee noting that the retention of staff in the area was below the benchmark. This is being addressed by implementing:

- improvement in training
- social-mental health
- strategies to reduce turnover

ACTION: Asset Management Audit through the CNSWJO - report has not been finalised and will be presented at the next meeting.

ACTION / RECOMMENDATION

THAT the Committee note the update on Council's progress with service reviews and business improvement.

MOVED: Deb Goodyer

SECONDED: Kylie McRae

CARRIED

7.10. Strategic Planning

2024/25 Operational Plan and Budget Program - ELT meetings have been extended to make decisions on budget matters. Administration gave advice on budget matters.

Transitioning Disaster Risk Reduction planning into the IP&R framework - related to natural disasters.

ACTION / RECOMMENDATION

THAT the Committee note the report on strategic planning.

MOVED: Deb Goodyer

SECONDED: Kylie McRae

CARRIED

8. General Business

The Chair called for any general business.

No matters of general business were raised.

9. Meeting Close

There being no further business the Chair declared the meeting closed at 5:21 pm.

DRAFT