



MINUTES

Audit & Risk Improvement Committee
(ARIC)

held at

Maldhann Ngurr Ngurra
Zoom Room
Cnr Bridge and Mort Street, Lithgow

on

11 June 2024

at 2:00 PM

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1. Acknowledgement of Country

Lithgow City Council acknowledges Wiradjuri Elders past and present of the Wiradjuri nation - the original custodians of the land on which the Lithgow's communities reside. The Council also extends our respects 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
Cr Darryl Goodwin - Deputy Mayor

Officers:

Craig Butler - General Manager
Ross Gurney - Director Finance and Governance
Raj Singh - Governance & Risk Manager

Invitees:

Matthew Trapp - Manager Water, Waste and Wastewater
Trinity Newton - Minutes
Leanne Smith - Intentus - External Audit contractor
Karen Taylor - Audit Office of NSW

3. Apologies

All being present, there were no apologies.

4. Declaration of Interest

The Chair called for any declarations of interest.

There were no declarations of interest made, the standing declarations were noted.

5. Confirmation of Minutes

The Committee acknowledged the draft minutes of the ARIC meeting held on 12 March 2024 which were presented to the Ordinary Meeting of Council 22 April 2024 - Minute Number 24-93.

ACTION

THAT the Minutes of the Audit Risk and Improvement Committee meeting of 12 March 2024 be taken as read and confirmed.

MOVED: Deborah Goodyer

SECONDED Kylie McRae

6. Business Arising from Previous Minutes

The Chair called for any matters arising from previous minutes that are not already in the agenda.

Nil matters were raised.

At the request of the external auditors, the Chair suspended standing orders and brought Item 7.3 forward to discuss at this point in the meeting to enable the auditors to leave for another meeting. Following the discussion, Karen Taylor and Leanne Smith left the meeting at 2:29pm, and the Chair resumed standing orders by returning to Item 6.1.

6.1. Committee Recommendations Tracking

Minutes Page 7 - clarification - Kylie McRae will work with LCC staff on a toolkit to prepare for the new guidelines – is not related to the Customer Service Review Action List.

Comments made at the last meeting with regard to the structure of the business papers. The Director Finance & Governance will meet with the Chair to discuss future business papers.

Business Arising - Committee Recommendations Tracking

The Committee sought advice on the delay in receiving the business unit review reports. LCC will follow up.

Risk appetite – LCC's 'Risk Appetite Statement' is to be signed off by Councillors who are responsible for setting and approving the Risk Appetite of Council. This will be carried out within the setting of the strategic policies.

Risk Management - Page 11 of 12 March 2024 meeting minutes - ERM Maturity Review Report action to be added to the tracking list.

The Fraud Risk Assessment - target date of 30 June and is still in progress. Correction of date.

Status update with 'policies due for review' in Pulse - the Committee was informed that Pulse is no longer being used. It is now being reviewed and monitored using an excel spreadsheet and manually reviewing the due dates monthly. Policies with high priorities need to be identified and management should consider additional actions to clear the policy & procedure review backlog. Further discussion on this matter will be deferred until item 7.4.

Draft Terms of Reference

In order to finalise the draft Terms of Reference for presentation to Council for adoption, the following matters were discussed and agreed:

- Page 6 - 12.3 - Completion of the approved internal Audit Plan - changed to the "progress against"
- Quality Assurance Improvement program is part of the internal audit function - required by the internal audit standards. This needs to be run through Council. Kylie McRae will provide guidance on setting and design of a program. The results will need to be presented to the Committee.
- Point 14.2 - fee increases for the independent members will be paid from 1 July each year.
- Update the CFIO title to Director Finance & Governance (p10).

ACTION / RECOMMENDATION

THAT the Draft Terms of Reference for the ARIC, as amended in the minutes, be endorsed to be presented to the next available Ordinary Meeting of Council.

MOVED: Deborah Goodyer

SECONDED: Kylie McRae

CARRIED

7. [OBJ] Agenda Reports

7.1. Compliance

The Committee discussed how Council is maintaining compliance with other legislative requirements not included in the Compliance Register, e.g. how WHS & Privacy legislation compliance is dealt with.

The Committee was advised:

- LCC has a comprehensive compliance register covering relevant legislation.
- LCC subscribes to an annual review service for all legislative changes.

ACTION: *the Committee requested a demonstration of the compliance register at the next ARIC meeting.*

ACTION: *The Committee suggested that a legislative compliance policy be developed to address the compliance of legislation register.*

ACTION: *report to ARIC on non-compliant issues that makes a statement that LCC has self-assessed that there have been xx compliance issues since the last meeting.*

ACTION: *The Committee requested an explanation of how Council is maintaining compliance with other legislative requirements not in the Compliance Register.*

ACTION: *Notify what policies / procedures have not been updated by way of elimination?*

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

Clarification was sought on the Customer Service Review actions which have additional actions. These are additional best practice actions that Council have added.

ACTION: *if action dates change, the original due dates should be identified in another column.*

ACTION: OLG Risk Management & IA Guidelines have mandated items. Kylie McRae will work with LCC staff on a toolkit to prepare this (action item from previous meeting).

Rating Review actions – Item RR8 states that a Farmland Category Application Form is due on 31 July. This date needs to be extended and is a target date. This will still be this calendar year but will be extended to the new council term.

Details of review and paper received from FTG but will be put to the new council.

Information Security Gap Analysis - the suite of policies is updated each year and have been in place for 4 years.

Cyber security - some matters are not access related. They have been marked as completed but not automatically dropping off.

Development of internal audit charter and internal audit function:

- The Committee was provided with a clarified walk through of the hybrid model that Council has adopted:
 - outsourced – auditable areas included in strategic internal audit plan, and
 - In-house internal audit – for internal controls and service reviews.
- Service reviews are part of IP&R.

The Committee discussed the service review process being part of the audit risk process.

The Committee discuss the outsourced audit process – it is intended that a four-year program be delivered by one provider who will assist in the development of the strategic internal audit plan.

What is the timeframe on selecting a provider? The ARIC could be involved in process and/or review out-of-session to ensure that all necessary requirements are met.

ACTION: Committee to provide examples of a draft EOI for an external provider of internal audit services.

Risk elements need to be finalised before the strategic internal audit plan is created. ICAC, Audit NSW and the LCC risk register were used to create the current audit plan.

The process for the development of the strategic internal audit plan needs to include ARIC. Once it is approved, the plan is reviewed annually and only amended by the ARIC.

ACTION: Develop an EOI/scope for an outsourced internal audit provider. Scope should include developing a strategic 4-year internal audit plan for the Council.

ACTION: Final IA Procurement report to be sent to ARIC members for endorsement out-of-session.

ACTION / RECOMMENDATION

THAT the Committee note the report on the internal audit program.

MOVED: Kylie McRae

SECONDED: Councillor M Statham

CARRIED

7.3. External Audit

Karen Taylor introduced herself to the Committee, being her first ARIC meeting with Lithgow City Council.

The outcome of the interim audit was presented to the Committee, outlining any issues that needed to be highlighted or actioned.

The interim audit was split into two visits this year to help with understanding processes and the previous auditor handover, as well as to familiarise themselves with Lithgow Council and its systems.

Matters that will be raised in the Interim Audit Management Letter, which were all advised by the auditors as low risk and of little concern, included:

- crossing t's and dotting i's.
- following up on bank signatures,
- reconciliations, and
- asset useful lives.

The Annual Engagement Plan was taken as read. The main aim for the current financial year's audit is to improve the timeliness of meeting the financial statements deadline of 31 October.

It was noted that both parts of the interim audit have been completed.

The Chair raised the need to understand if there were any issues with meeting the timetable that has currently been agreed.

ACTION: *There are some revaluations scheduled for this year that need to be prioritised in terms of obtaining them and having them audited.*

Revaluations need to be prioritised. These are underway and no issues have been flagged.

NSW A-G report on Local Government

A brief update was presented by the Audit Office.

The committee requested clarification on point four of the common findings and sought clarification on ensuring management appropriately certify the effectiveness of internal controls supporting financial statements as there were no requirements set out for ARIC's to follow.

- The 'Internal Control Questionnaire' template from the NSW State Government would be beneficial in the interim.
- Despite being a matter publicly raised in the FY23 report, the auditors advised that it does not form part of their FY24 scope.

It was noted that the cyber security items were implemented and tested by the IT Manager.

LCC is relatively compliant with ARIC functions that are required from 1/7/24 and would be considered one of Councils that communicate the cyber risks.

ACTION / RECOMMENDATION

THAT the Committee note the update on Council's external audit program.

MOVED: Kylie McRae

SECONDED: Councillor D Goodwin

CARRIED

7.4. Internal Controls

The Committee asked for clarification on the comment that 'no new policies have been adopted by council since March 2024'. This relates no new policies being considered by Council at Ordinary meetings.

The Policy and SWP Registers have a large number of policies overdue according to their due dates. What is council doing to get these followed up?

ACTION - *the responsibility to be placed on Directors by taking a refined and risk prioritised list to be addressed. The Managers and Directors to be included in the email reminders of policies due for review.*

The General manager advised that it is the staffing levels that often slows the review process and addressing the updates.

There are no obvious risks - those policies that are legislatively controlled are addressed as a priority.

ACTION: *An action plan for the updating of the outstanding items should be developed with a manageable list which may be less overwhelming.*

Some policies may need to be rescinded as they are no longer required.

ACTION / RECOMMENDATION

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

MOVED: Deborah Goodyer

SECONDED: Councillor D Goodwin

CARRIED

7.5. Fraud and Corruption

The Committee briefly discussed the Fraud and Corruption report.

ACTION / RECOMMENDATION

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

MOVED: Councillor M Statham

SECONDED: Deborah Goodyer

CARRIED

7.6. Financial Management

The report structure was discussed - the Council meeting report is to be included as an attachment, with a dot point summary to be included in the ARIC report to focus discussions. Also need to include the actual resolutions of Council should they be amended during the meeting.

ACTION: *In future the Council report of the budget review (QBRs) to be provided to the Committee as an attachment, along with any amendments to the proposed recommendations.*

ACTION / RECOMMENDATION

THAT the Committee note the financial management report.

MOVED: Kylie McRae

SECONDED: Deborah Goodyer

CARRIED

7.7. Governance

The Committee discussed the Governance report.

A verbal update on the progress of the recruitment of a new General Manager was provided, outlining the process set in place.

ACTION / RECOMMENDATION

THAT the Committee note the report on key governance processes and the update given by the General Manager.

MOVED: Councillor M Statham

SECONDED: Councillor D Goodwin

CARRIED

7.8. Risk Management

Update on new Risk Register

ACTION: *The Strategic Risk Register and Operational Risk Management Plans have been completed and will be distributed to the independent members as soon as possible out-of-session.*

A further Strategic Risk Register review will be completed in August 2024 and will be presented to the ARIC at the September meeting.

Risk Register formats

- titles are to be refined.
- residual risks - are those that are left over after controls/mitigations have been established.

ACTIONS:

1. *Update ARIC on what subplans are left to update for the September meeting.*
2. *Risk Register – strategic / operational risk registers need to be discussed with the new Council.*
3. *Register may require update, suggestion by Chair is Title - Residual Risk Rating – Inherent Risk – Controls – Residual Risk Rating – Proposed Treatments – Targeted Risk Rating – Risk Appetite – Timeframe to Achieve.*

Effectiveness of business continuity arrangements

The committee requested information on the progress of the Business Continuity Plan (BCP) reviews.

ACTION: Governance & Risk Manager to follow up on the current status of the BCP reviews and which ones still to be reviewed.

The cycle of the BCPs is two years from when the last ones were created. Confirmation was requested on when these BCPs are tested and the outcomes.

Risk Maturity Review Report Actions

ACTIONS:

1. The document should have original due date and new due date.
2. Commentary section should tie up to recommendations. Commentary are ongoing comments or completed and are not currently connected to the Management Action.

There should be a process for follow-up and provision of evidence for the comment, e.g. "This was done on such and such #### date and related to ##### document".

Advice requested on how to deal with ongoing matters:

- These matters can be finalised, and a process be put in place.
- Once all action has been taken to rectify the matter it can be removed from the list.
- This then becomes a management action and not a risk register action.

Lithgow NAMA Report

The Committee was introduced to Matthew Trapp, Executive Manager Water, Wastewater and Waste, who assisted with development of the Asset Management Audit for the Central NSW Joint Organisation.

Council will consider the budget at the Ordinary Meeting of Council being held on 24 June 2024 and this will enable funding of a new Strategic Asset Manager role.

There needs to be a significant lift in the standard of the IP&R documentation in the next financial year. There is a project plan being created and this is being worked on in the background. Regular updates requested by the ARIC. This will also be embedded in the operational plan, with a position description being finalised.

ACTION: Asset Management and progress against NAMA recommendations to be a standing item of ARIC.

This will be all come down to recruitment but may not be recruited by the time of the September ARIC meeting, but within the current calendar year.

The Committee noted the report and thanked Matthew Trapp and Craig Butler for their updates on this matter.

Cr Darryl Goodwin left the meeting at 4:06pm

ACTION / RECOMMENDATION

THAT the Committee note the report on risk management

MOVED: Deborah Goodyer

SECONDED: Kylie McRae

CARRIED

7.9. Service Reviews and Business Improvement

Monitor any audits conducted by external bodies

ACTION: *Completing the Cyber Security NSW guidelines for local government self-assessment will be programmed and results provided to the Committee.*

Council has a Cyber Security Policy that does that identifies roles and responsibilities relating to adherence to the policy but does not have a formal implementation plan.

The Committee sought clarification of the cyber security incident management plan; is it being created or implemented?

- The incident management plan will be finished by the end of June.
- At the same time testing of the incident management plan will occur.
- This matter will be brought back to September meeting.

ICAC - A similar table for this as per the cyber recommendations would be useful.

Choose the broader recommendations and discuss if they are applicable to LCC.

ACTION: *Complete a gap analysis against the findings and recommendations coming out of ICAC's 'Operation Hector' report and provide results to the Committee.*

Update on Service Management Framework implementation / Service planning

The Committee asked that LCC be mindful of service recommendations as they are all tied together.

ACTION / RECOMMENDATION

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

MOVED: Councillor M Statham

SECONDED: Deborah Goodyer

CARRIED

7.10. Strategic Planning

LCC were overdue for the six-monthly Operational Plan progress report due to staff resourcing issues.

Asset Management will be key to updating other operational documents.

Linking IP&R to the performance data and measurement is crucial and LCC needs to better implement this.

ACTION / RECOMMENDATION

THAT the Committee note the report on strategic planning.

MOVED: Kylie McRae

SECONDED: Deborah Goodyer

CARRIED

7.11. Performance Data & Measurement

The Committee were informed that there is a new phone system being introduced in the new financial year. A considerable amount of quality data will be able to be extracted from the new system.

ACTION / RECOMMENDATION

THAT the Committee note the update on Council's progress with performance data and measurement.

MOVED: Deborah Goodyer

SECONDED: Councillor M Statham

CARRIED

8. General Business

Discussion on the presented items for general business was held noting the following:

- That the Chair will be meeting with General Manager and Director Finance & Governance the following week to discuss the business paper structure and reporting.
- Internal Audit Annual report - the functional model has not been created to enable reporting.
- An annual ARIC operational report will be provided to the September meeting, however any 'opinions' of the Chair or Committee will be limited and heavily qualified.
- Understanding the extra / special meeting pre-audit financial statements meeting in early September 2024.

ACTION: *provide ARIC with a date and time for the pre-audit financial statements meeting.*

- *ARIC questions on the draft statements will be provided in advance of the meeting.*
- *Referral to audit reports to be given to the ARIC around 30 August 2024.*
- Wolgan Valley Access
- The General Manger raised that there is a major project - Wolgan Valley access which will need to have a whole new road constructed.

- An application / submission to be lodged by the end of June.
- There has been a tripartite agreement signed for upfront funding.
- This will cost \$326M with current assets at \$308M.
- A report to the June meeting and be comfortable that it is within the risk appetite of the council and addressing the capacity to pay (community and government).
- Engagement with current and new council to test risk appetite.
- Depreciation and ongoing maintenance will be costly.
- Wolgan Valley Access is an item that should be brought back to the ARIC on a regular basis, along with any other significant projects (in value and/or risk).

ACTIONS:

1. *Project risk assessment to be provided to ARIC for review.*
 2. *Wolgan Valley Access to be added to the next meeting agenda.*
- Recognising the GM's last meeting with the ARIC, the members thanked Craig Butler for his leadership and support, as well as their appreciation in working with them on all ARIC matters.

9. Meeting Close

There being no further business the Chair declared the meeting closed at 4:47 pm.