Lithgow City Council
Audit, Risk and Improvement Committee

2023-24

Annual Report

to Council

Report prepared by the Chair of the

Lithgow City Council Audit, Risk and Improvement Committee

Table of Contents

1. Introduction

The Terms of Reference ("TOR") for the Audit, Risk and Improvement Committee ("Committee") adopted by Lithgow City Council ("Council") requires the Committee to provide an annual assessment to Council each year.

This report covers the period of the financial year of 2023-24. Prior to its submission to Council, the report was reviewed and endorsed by the Members of the Committee.

The Committee has been established and supported by Council as a key component of its governance framework. The Committee's TOR has been developed with reference to guidelines issued over time by the NSW Office of Local Government ("OLG").

The TOR sets out the roles and responsibilities of the Committee, its authority and operational guidelines, membership and the tenure of its members, and their reporting responsibilities. Initially adopted by Council on 26 April 2022, the TOR is required to be reviewed annually by the Committee with substantive changes recommended to Council for adoption.

The first annual review was undertaken by the Committee in June 2023 which resulted in some minor amendments. Following the finalisation of the OLG's *Guidelines for Risk Management and Internal Audit for Local Government in NSW* ("Guidelines") in December 2023, the Committee's annual review in April 2024 resulted in further minor amendments as well as some operational improvements. Council adopted the revised/updated version on 22 July 2024.

2. Audit, Risk and Improvement Committee Report

2.1 Committee Membership

During the reporting period, the core membership of the Committee comprised of two voting Councillor Members and three voting Independent Members, with one of the Independent Members appointed as the Chair by Council.

The voting Councillor Members were a variation to the proposed OLG Guidelines which Independent Members supported. The then draft Guidelines required an optional solitary non-voting councillor member that was not the Mayor. This membership variation was also supported by Council as part of its initial TOR adoption. Following the finalisation of the OLG Guidelines that came into effect from 1 July 2024, Council's recently adopted TOR has been amended to reflect the legislated requirement of a solitary non-voting councillor member. The non-voting councillor member will be appointed by Council following the next election.

Independent Members are appointed for a specified term by Council following selection through an expression of interest process.

Disclosure of Pecuniary Interests forms are submitted annually by ARIC Independent Members.

The Committee Members during the period covered by this report were:

Councillor Members:

- Cr Maree Statham (Mayor)
- Cr Cassandra Coleman (Deputy Mayor – pre 25 Sept 2023)
- Cr Darryl Goodwin (Deputy Mayor – post 25 Sept 2023)

Independent Members:

- Neil Maltby – Chair (resigned Sep 2023)
- Ron Gillard – Chair (appointed 25 Sept 2023, Member since 24 May 2022)
- Kylie McRae (since 24 April 2023)
- Deborah Goodyer (since 25 Sept 2023)

Background of Independent Members:

Ron Gillard has attained a broad range of commercial experience in the Australian manufacturing and investment sectors, as well as from participating in significant business ventures in Australia, the US and Europe. Since commencing his management consulting business in 2005, he has also held a number of honorary executive positions on boards and/or committees for not-for-profits, community organisations, and other institutions. At various times during this same period, Ron has been appointed as an Independent Member or Chair to Audit, Risk and Improvement Committees of twenty-one regional and rural councils and/or JO's. He is currently the Chair of seven and a Member of a further nine (with three shared ARIC's representing ten of the total current). Ron holds a Masters Degree in Commerce.

Kylie McRae is an experienced governance, risk, assurance and integrity professional with 30 years' experience. She leads the consulting arm of the Institute of Internal Auditors – Australia and has held several Chief Audit Executive and Chief Risk Officer roles in both the public and private sectors. Kylie has a range of qualifications including a Master of Business Administration (Executive), Bachelor of Commerce, Certified Internal Auditor and Certified Practicing Accountant. She is a fellow of the Institute of Internal Auditors Australia (PFIIA), CPA Australia (FCPA) and the Governance Institute of Australia (FGIA). She is also a graduate member of the Australian Institute of Company Directors (GAICD). Kylie is currently a member of ten local government audit risk and improvement committees, including two as Chair, and on the Board of a charity. She has previously held several board positions on both corporate and not for profit organisations.

Deborah Goodyer is a CPA and Certified Internal Auditor with extensive experience in internal audit at a strategic/management level over 30 years within local government and more broadly within state and federal government. She has held roles of Chief Audit Executive and internal audit and corruption prevention manager. She currently undertakes work as an external consultant and as Chair of two NSW council ARIC's and Member of four others including Lithgow. Deborah has experience and expertise in various business and functional areas, including strategic governance, financial and risk management and fraud and corruption management. She provides pragmatic advice and solutions working collaboratively to improve the integrity and sustainability of the organisations she works with. Deborah is qualified to perform external quality assurance reviews of internal audit functions and has established internal audit frameworks in accordance with IIA standards and regulatory requirements including the OLG Regulation and Guidelines.

2.2 Committee Meeting Attendance

The table below sets out the meetings of the Committee held during the reporting period and the attendance of Committee members at these meetings.

Meeting Date	Cr Statham	Cr Coleman	Cr Goodwin	Neil Maltby	Ron Gillard	Kylie McRae	Deborah Goodyer
12th Sep 2023	✓	✓		✓	✓	✓	
24th Oct 2023	✘		✓		✓	✓	✓
28th Nov 2023	✓		✓		✓	✓	✓
12th Mar 2024	✓		✘		✓	✓	✓
11th Jun 2024	✓		✓		✓	✓	✓

Table 1: Summary of Committee Meetings and Member Attendance

The meeting of 24th October 2023 was held as a 'special meeting' to review the Council's draft financial statements being referred to audit. While predominately based on past performance of readiness for audit, an informal assessment will be undertaken annually by the Chair to determine the need/benefit of a 'special meeting' in the current year.

The General Manager, Director Finance & Governance, Financial Services Manager (apology June 2024), and Governance & Risk Manager (since November 2023) attended the above meetings as ex-officio members, along with other Council staff from time to time. A representative of the Audit Office of NSW and/or their external audit contractors attended their respective agenda items at each of the 'ordinary' meetings above.

2.3 Role of the Committee

The primary role of the Committee, as required under section 428A of the *Local Government Act 1993 (NSW)* (the "Act"), is to review and provide independent advice to Council regarding the following aspects of Council's operations:

- compliance;
- risk management;
- fraud control;
- financial management;
- governance;
- implementation of the strategic plan, delivery program and strategies;
- service reviews;
- collection of performance measurement data by Council; and
- internal audit.

In addition, the Committee:

- must also provide information to Council for the purpose of improving Council's performance of its functions;
- must fulfil its specific responsibilities under section 428A of the Act as outlined in Schedule 1 of the TOR;
- acts as a forum for consideration of Council's internal audit function and oversee its planning, monitoring and reporting to ensure it operates effectively;
- acts as a forum for the consideration of external audit findings;
- is directly responsible and accountable to the Governing Body for the exercise of its responsibilities; and
- recognises at all times that the primary responsibility for the management of Council rests with the General Manager and the Governing Body.

The Committee achieved this by:

- examining and commenting on Council's enterprise risk management framework and practices, including review of internal control mechanisms;

- reviewing financial reporting, including reviewing the work of Council's external auditors;

- monitoring legislative compliance, including compliance with policies and guidelines issued by the Office of Local Government;

- developing, executing and monitoring a four year workplan for each Council term to ensure that all matters listed in Schedule 1 of the TOR are reviewed by the Committee and considered by the internal audit function when developing their risk-based program of internal audits;

- reviewing the work of Council's internal audit function, including achievement of Council's Strategic Internal Audit Plan and advising management on the annual and long term program of internal audits, as well as overseeing progress with the implementation of the recommendations of completed audits;

- monitoring progress of internal process improvement projects, including the implementation of internal and external audit recommendations;

- provide advice on the scope of each project to ensure that each audit or review addresses the breadth of detail expected; and,

- reporting to Council on significant governance, risk, and internal control issues.

2.4 Internal Audit

Early in the reporting period, Council initiated discussions and development of its proposed Internal Audit Function to meet the then unconfirmed OLG Guidelines compliance date of 1 July 2024, with a critical component being the recruitment of a Governance & Risk Manager in the last quarter of calendar 2023.

Council's existing Internal Audit Function operated predominately under the guidance of the Director Finance & Governance with approved and scoped internal audit projects being individually outsourced to external service providers as the need arose. It was widely agreed by the Independent Members that this was not the most appropriate and effective internal audit model for Council.

Following initial discussions and the appointment of the Governance & Risk Manager, with the Committee's support, Council is now seeking to establish a 'hybrid model' which will primarily be resourced by the appointment of a multi-year contracted external service provider to conduct internal audits. In consultation with Council and the Committee, this provider will commence their appointment with the development of a strategic internal audit plan for the next council term based on Council's deemed risks and priorities. Following the plan's endorsement and adoption by the Committee and Council respectively, in compliance with the Global Internal Audit standards, the provider will then undertake the internal audits listed in the plan, subject to an annual review/confirmation. A draft EOI document for an external provider of internal audit services will be reviewed at the September 2024 Committee meeting.

Internal Audit Plan

The initial annual review of Council's adopted '4 Year Internal Audit Plan' from 2021 was deferred pending the completion of the Risk Management Framework Review and for the Governance & Risk Manager to commence. At a subsequent meeting, and mindful of the work involved in the establishment of a 'new' Internal Audit Function and Risk Management Framework, the Committee agreed to reduce the planned internal audit projects for the reporting period. The residual audit projects previously identified will be considered in the development of a new strategic internal audit plan for the next council term.

Internal Audits Undertaken During 2023/24

- Information Security Gap Analysis (final report presented Nov 2023); and

- Procurement (final report to be presented Sept 2024).

Progress of Internal Audit Recommendations/Actions

Progress against agreed actions resulting from the recommendations of internal audit reports (current and prior years) are reviewed at every Committee meeting, with any necessary revisions to targeted implementation dates approved by the General Manager and/or the Committee.

Number of Actions:	2023/24	2022/23*
Open at start of period	40	
Added from audits completed during period	26	
Resolved/addressed during period	-34	
Open at end of period	32	40
Total Actions Overdue	*nil*	*nil*

*2022/23 period analysis not available

The Committee is satisfied with the quality of internal audit work undertaken, the reported outcomes, and management's response/progress toward corrective action where necessary.

Other Internal Audit Activities

During the reporting period, the Committee:

- reviewed and approved the internal audit scope for Procurement;

- reviewed the findings of the Asset Management Audit facilitated by Central NSW Joint Organisation utilising the National Asset Management Assessment Framework ("NAMAF"); and

- reviewed and endorsed the Internal Audit Charter for the proposed 'hybrid' model which was adopted by Council on 22 April 2024.

Independent Assessment of the Internal Audit Function

As part of the framework for the professional practice of internal auditing (IPPF) it is expected that an independent assessment of the internal audit function be performed to ensure that the practice of internal auditing is occurring in accordance with professional standards. The new Guidelines also require this to occur once every term of council. Given the recent changes and Council's infancy in the development of its Internal Audit Function, it is appropriate at this time to defer any consideration of an effective review to the second half of the next council term.

2.5 Enterprise Risk

Risk Management Framework and Risk Register

Work is progressing on the Risk Management Framework following the maturity review undertaken in March 2023, and is regularly monitored by the Committee. Key framework and policy documents have been developed and adopted by Council.

The Committee is routinely informed about any issues or matters that have arisen since their last meeting that could affect Council's risk profile. As part of the Framework progress, the Committee receives an annual presentation of Council's risk register. Between the annual presentations, the Committee is advised summarily at each meeting of any/all changes to the risk register that have occurred since their last meeting.

The Committee will continue to monitor and review management's identification and assessment of risks to Council, as well as assist Council in the appropriate review and development of a compliant Risk Management Framework.

Business Continuity Plan

Through internal audits and other indirect reviews, recommendations have been made to Council in respect of improvements to be incorporated into its Business Continuity Plan ("BCP"). A review of the BCP's sub-plans by Council was initiated in early 2024 and anticipated to be completed before the end of the year. The Committee will continue to monitor the currency and status of the BCP, including simulation testing of its components from time to time.

2.6 External Audit

The introduction of the *Local Government Amendment (Governance and Planning) Act 2016 (NSW)* gave the Auditor-General the mandate to audit NSW local government. During the reporting period, the Audit Office of NSW completed the external audit of Council's financial statements for the fiscal year ended 30 June 2023 ("FY23"). The Committee advised the Governing Body that they were not aware of any matter that would preclude Council from adopting the Annual Financial Statements for FY23.

During the year, the Committee also met with the Audit Office of NSW and/or their contractor and oversaw the delivery of the Annual Engagement Plan for the financial year ending 30 June 2024, as well as monitored Council's progress in addressing the open item actions agreed in response to matters raised in the FY23 and prior External Audit Management Letters.

The Audit Office of NSW and its contractor are invited to attend and participate in all Committee meetings (by videoconference, telephone, or in person wherever possible) for the full agenda if their schedule(s) permit.

Progress of External Audit Recommendations/Actions

Progress against agreed actions resulting from the recommendations of Audit Management Letters (current and prior years) are reviewed at every Committee meeting, with any necessary revisions to targeted implementation dates approved by the General Manager and/or the Committee.

Number of Actions:	2023/24	2022/23
Open at start of period	4	5
Added from audits undertaken during period	1	2
Resolved/addressed during period	-5	-3
Open at end of period	nil	4
Total Actions Overdue	*nil*	*nil*

2.7 Annual Performance Review

It is required by the current TOR for the Chair to initiate a self-assessment based review of the performance of the Committee annually, unless otherwise determined by the Committee, including appropriate input from management and any other relevant stakeholders.

Given the requirement of this was added during the most recent TOR review that was adopted by Council on 22 July 2024, coupled with the changes over the past year to legislation, membership, and staff, the Chair determined not to initiate a self-assessment for this period.

2.8 Other Key Activities Undertaken During the Reporting Period

The Committee continually receives reports and updates on Council activities as they relate to the requirements of section 428A of the Act and the TOR's Schedule 1. During the year, the Committee received the following reports/updates:

- review of existing policies and procedures for currency;

- ongoing monitoring of Council's legislative compliance matters, including adherence to new and amended requirements in compliance and governance, with any 'non-compliance matters' being reported at the standing agenda item;

- results of gap analysis performed by Council against the NSW Audit Office Performance Audit on:
  o Cyber Security in Local Government; and
  o Financial Management and Governance in MidCoast Council;

- confirmation of compliance with Modern Slavery Act;

- review fraud prevention strategies and controls, as well as any fraud assessments and/or incidents;

- regular financial management reporting to Council, and the adequacy of cash management and investment policies;

- progress with service reviews and business improvement, including the development and adoption of the Service Management Framework;

- adequacy and effectiveness of strategic planning processes and reporting; and

- progress of performance data and measurement.

3. Committee Priorities for 2024/25

The key priorities for the Committee in this coming year will be:

- reconsider and advise Council on the impacts to the Committee in respect of the OLG's revised amendments to the recently legislated 'new framework', propose workable options that will allow the Committee to meet its obligations and minimise any adverse impact on Council's operations, and assist Council in its compliance with the recent changes;

- review and develop a four year workplan for the next council term covering all of the Committee's responsibilities contained within Schedule 1 of the TOR, and to ensure they are fulfilled on a cyclical basis;

- assist with the review, development, and implementation of Council's internal audit function/model;

- assist in the development and adoption of the Strategic Internal Audit Plan for the next Council term;

- monitor the internal audit projects to ensure they are completed in a timely manner;

- monitor management's responses to audit findings and recommendations, and to advise on the appropriateness of the responses and proposed implementation timeframes;

- assess the benefits/effectiveness for Council in utilising the additional 'special meeting' of the Committee for reviewing the draft and/or audited financial statements;

- monitor the continued development and implementation of the risk management framework;

- monitor and review the Council's risk registers and risk profile;

- monitor the arrangements to review and test Council's BCP and IT disaster recovery plans; and

- receive and question the functional heads of Council from time to time to provide real-time updates on programs, initiatives, risks and controls from their operations.

Ron Gillard
Chair – Lithgow City Council Audit, Risk and Improvement Committee
10th September 2024