



CENTRAL TABLELANDS ALLIANCE (CTA) AUDIT COMMITTEE

MINUTES – 13 June 2019

Meeting opened 10.05am.

1. Welcome and Acknowledgement of Country

We acknowledge the traditional custodians of the land on which we live and work - the Wiradjuri and Gundungurra Nations of people and we pay our respects to the Elders past, present and emerging.

2. Attendance

Neil Maltby	Independent Member (Acting Chair)
Phillip Burgett	Independent Member
Mayor Kathy Sajowitz	Mayor Oberon Council - Member
Mayor Ray Thompson	Mayor Lithgow City Council - Member
Gary Wallace	General Manager, Oberon Council
Lynette Safranek	Corporate Services Director, Oberon Council
Graham Falkner	General Manager, Lithgow City Council
Ross Gurney	Chief Financial and Information Officer, Lithgow City Council
Leanne Smith	OC External Auditor - Intentus
Lisa Sampson	Centium – via phone
Gabriel Faponle	LCC External Auditor Crowe Horwath – via phone
Yas Wickramasekera	Centium
Sharon Swannell	Secretariat – Oberon Council

3. Apologies

Nil

4. Declarations of Interest

Nil

5. Confirmation of minutes of previous meeting

The Minutes of the CTA Audit Committee Meeting held on 14 March 2019 were confirmed. The Minutes have been adopted by both Councils.

It was noted that on Page 6 of the minutes the Lithgow City Council Action List should say 2018.

A further update will be presented at this meeting in relation to Oberon Council issues with Civica.

6. Business Arising and Action List

Review of Actions 14 March 2019 Minutes, page 7 – summary of actions.

- December 2018 Action – funding. Covered with the resolutions that were put to both councils. There will be a focus on internal audit for the next 12 months from July (Ross/Lynette).
- Civica Update for Oberon Council (Lynette) – Oberon Council is looking at its Enterprise Management System as a whole and is currently going through a review to determine if it will stay with Civica or move to a new system. Several meetings have been held with Civica, with issues and costs identified. Oberon Council is a fully managed service customer, who relies almost entirely on Civica for its activities. The executives have reviewed several packages and a staff working party has been formed to review options and make a recommendation to the Executive Management Team.
- The second quarter budget review statement had been emailed to committee members following the last meeting (Lynette).
- Oberon Council will develop an Audit Action List but do not have any actions at this point in time (Lynette).
- The Lithgow City Council Audit Management Letter had been sent to the independent members and Ross will send the next one for June. LCC expect this to be the last one required. The Audit Office has indicated they will be removing this requirement for LCC (Ross).

7. Resignation of the Chair

The resignation of Chair, Rob Campbell was noted and a letter of thanks will be sent thanking him for his service.

8. Combined Councils Resolutions

a. OC and LCC Resolutions

Resolutions – a copy of the Oberon and Lithgow Resolutions were tabled from the April (LCC) and May (OC) Meetings.

Ross and Lynette will continue to work together. An initial meeting was held last month and it was agreed from July we will start putting in place a plan to develop a three year Internal Audit Strategy and plan for both Councils. Quotes will be sought to develop internal audit plans for two to three internal audit projects per year for the next three years. The resolution also includes that we will review how we proceed and report to both councils by April 2020 on how we will move forward into the future. A full review will be conducted over the next 12 months.

Ross – LCC has a internal Finance Committee operating and that will ensure that the responsibilities of the Audit Committee are met. LCC has discussed this with the contracted audit partners, they understand where we are at.

Lynette – OC will review how things have been done and how to move forward.

Gary Wallace asked if there is an opportunity to seek guidance from the two independent members on how they would like to see the committee structured moving forward. Discussion was held regarding options and Neil Maltby advised he is happy to provide an independent commentary separate to the meeting. Phillip Burgett sought further clarity regarding the expectation from the independent members in the future.

Gary Wallace added the Councils are seeking expertise and evaluation on the past year from the independent auditors. We want to take a step back to see if what we are doing is of value to our communities. This doesn't negate the value of independent experts associated with this committee.

Graeme Falkner added that we are taking 12 months off to review the process and will want to utilise resources to instruct an internal audit in some way. Towards 2020 the structure will be clearer from the Office of Local Government and the framework will be modelled on what the OLG mandates. We will be seeking the two current independent members to be independent consultants during that period.

b. Centium Reports

Lithgow City Council

Yas Wickramasekera from Centium presented the final report for the Internal Audit carried out of the Contract and Project Management Systems and processes. Yas thanked the LCC and staff, extensive engagement was undertaken and the report is a result of the consultative process. Each scope area has been given a separate control. Overall there was 1 low risk, 6 medium risk and 2 high risk identified.

There were five key positive controls identified, there is a well documented framework in place which defines and provides a uniform approach to Contracts and Project Management activities. In all areas there is a robust framework in place, a full time Procurement Coordinator is a pivotal position and has reduced Council's risk exposure.

Induction manual for staff – stakeholders are given good information. Contractors receive induction with appropriate information provided to them including WHS. 800 contractors inducted under process. There is an appetite for change and improvement. A brief overview of the summary of findings focusing on the high and medium risks was provided.

Yas presented the summary of key findings. Council has a consistent approach for business cases. In relation to the sample tested some gaps were identified. This has been discussed with council and actions put in place. Approval levels, there is a discrepancy, however it is acknowledged it is a low risk, Council could address this as a business improvement initiative.

One area of high risk identified is that LCC doesn't have a Corporate Risk Register that captures all risks. This exposes a gap where council cannot monitor all risks. This has also been acknowledged. An area of Medium risk was identified in relation to purchasing procedures, staff received some induction on purchasing procedures, council purchasing, vendor panel and tech one, however there is no ongoing training for the current procedures. The risk is with people coming and going, medium risk. Ross advised that LCC has starting purchasing training for existing staff today.

Progress reporting was another high risk area. The risk is there is limited guidance provided in relation to actions council can take for non-compliance. It cannot be assumed that contractors will do what they are engaged to do, and if they are not doing what they are engaged to do how do we address the non-compliances. Good management action has been put forward to address this.

Progress reporting is monitored via the pulse system. The exposure is no regular monitoring reports currently in place. Even though there are very good guidelines in place for over 150k threshold, the guidelines are not as clear for under.

Dispute resolution, a little bit more work is needed. At this time it is done on a case by case basis, there is no overall consistent method or approach to dispute resolution.

Post project feedback is not done consistently but on an ad-hoc basis. Risk exposure is the learnings from the projects there is no mechanism to build the continuous improvement loop.

Council did have an effective agreed management action workshop and brainstormed what council can put into place. It is reinforced for council to be mindful of their risk appetite. That was taken into account when the actions were put in place and they have acknowledged the work that needs to be done.

Ross thanked Yas and the team, the audit was very professional and everything was completed on time.

Oberon Council

Yas presented the report for Oberon Council internal audit. The oversight and the scope for the two councils were identical. There were some differences due to the different systems and processes in place. The outcomes of the two reports are different and that is reflective of how the two councils managed their respective processes.

Yas gave an overview of the key positive findings and thanked Lynette and team at Oberon for all the assistance given. Not easy collecting all the information needed for the audit and Centium received all the cooperation needed.

Referring to page 9 of the report, council staff acknowledged the exiting shortfalls. There are some gaps, this has been acknowledged by staff and there is an appetite for improvement. The Council's Grants Coordinator is monitoring progress of projects where there is a grant involved. Those same controls should be replicated across all other areas for projects as well. The appointment of a new HR Coordinator and implementation of a new on-boarding system will improve this risk. Council know how to manage contracts and tenders, it's about utilising this across all areas of council as well.

Council has in place processes, unfortunately the staff have been applying these inconsistently across council, we have seen different levels of application. We discussed the risk exposure and council has put in place a good action plan.

Assessing and approving business cases – some pockets applied very well, some need improvement. Suggest implementation of a more consistent approach for better reporting.

Procurement and Disposal Policy – delegations. Testing indicated the policies are well understood by staff. It was difficult to get the information of the different levels of the projects that we needed to do the testing. There is a good understanding of how to move forward with this area.

Risk and WHS is included in Contract Management, Disposal and all WHS Policies. Interview of staff there was an acknowledgement there was a question of the level of implementation. This goes back to training and implementing all the systems and processes that council do have in place. This will be addressed by training.

Acknowledging that council has policies and procedures – where we find people are not implementing policies and procedures we find it is where they are not embedded.

We found there was not a consolidated corporate risk register. Progress is managed ad-hoc and inconsistent – this is classified as a high risk. There is a management action to address this.

Unified approach to collecting and analysing data, the process is ad-hoc. It is really about embedding, training, reinforcing and ongoing monitoring. There were no clear guidelines in current policies for variations, particularly when they are over \$150,000 threshold. The guidelines to manage the variations need to be tightened.

Dispute resolution needs to be formalised. Managing non-compliances and if there is a dispute staff need to know how to manage that dispute. We looked at the record keeping system – maintenance of records, there was some risk due to inconsistent storage. This has been spoken about in detail of the management action.

Post project feedback – closing the loop, what worked, what lessons can be shared and instilling that across future projects as well.

Lynette passed on her thanks to Centium, the audit was very thorough and we have some good things to move forward with.

Mayor Sajowitz asked how do we measure the progress of these action items?

Lynette advised we will take the actions on board and they will be reported through the General Manager.

THAT the respective reports from Centium for Lithgow City Council and Oberon Council be received and noted by the Committee.

MOVED: Neil Maltby SECONDED: Phillip Burgett

CARRIED

c. Internal Audit Training update - Lynette

Lynette attended Internal Audit Training during April. The training was very good and there are guidelines coming out, all councils will have an audit risk improvement committee. Included in the draft document there is the possibility that councils will be required to have an internal audit component as well. Some of the bigger councils already have ARIC committees up and running, they have good examples of their charters and how they are working. Ross and Lynette will review these and make recommendations appropriate for the size of our councils.

Yas advised Centium currently work across 60 councils, there will be a requirement or an ARIC, this will be mandated. Councils will need to undertake an internal audit function, however this doesn't mean each Council will need to have an internal auditor, you just need to undertake an internal audit function so that your high risks are being monitored or assessed. Most councils are moving away from having an internal auditor, there needs to be a clear level of independence.

THAT the report by Lynette Safranek regarding Internal Audit Training be received and noted by the Committee.

MOVED: Neil Maltby SECONDED: Phillip Burgett

CARRIED

9. Oberon Council

The Quarterly Budget Review, Draft 2019/20 Operational Plan, Draft Long Term Financial Plan and Interim Audit Update were presented.

The QBRS is as presented, the third quarter report was presented in May. The draft 2019/20 operational plan has been through the exhibition period and will be finalised at an extraordinary meeting being held on 25 June.

Lynette highlighted this is the last year of Council's Special Rate Variation and the forecast is for a slight surplus. Council is continuing to look at funding opportunities for a new Sewerage Treatment Plant and development of a large sporting complex. Continued grant income has been forecast and it is noted in the assumptions, if the grants do not become available Council has the capacity to borrow over the next 10 years.

Interest rates – TCorp currently operate under reduced loan incentives. Assumptions in LTFP say they are consistent over the next ten years. The draft LTFP papers presented did not include the assumptions. Lynette will email them to the Committee Members.

Phil Burgett asked a question in relation to the LTFP, I am interested in the narrative to inform what is going to happen in 2020/21 and 2021/22 where you are getting substantial grant monies in and then it drops back to be consistent with 2019/20. What is driving the continued projected surplus in the general fund?

Lynette advised the consolidated LTFP, grants and contributions for operating purposes should be adjusted to the capital projects. They have been put into the operating for these lines. 90% is capital. This includes the Sewerage Treatment Plant capital project and the sporting complex so there is an error in the draft this has now been corrected. The grant funding is in the operating rather than the capital.

Leanne Smith from Intentus addressed the meeting in relation to the conduct of the interim external audit. No new issues have been raised as a result of the first interim visit. Intentus has now received the data collection information request for the Audit Office. In order to inform those reports they have each contract agent and each council complete extensive document on different areas. Last year there was a lot of information required on procurement and project management. This year there is a lot on gifts, registers etc. The next interim audit has been delayed due to staff illness and has been rescheduled to mid July. There will be a second interim management letter which is expected will have a few more matters included due to the data collection. The matters carried forward were reported on in the management letter. There was a focus on the disaster recovery plan, which is understood will be done in the not too distant future as well as reoccurring issues around IT matters and also a flag around preparing for the new accounting standards. There is a specific data collection request relating to Credit Card, the number of transactions, \$ value, volume, who can do what, back over several years.

THAT Oberon Council's Quarterly Budget Review Statements, Draft 2019/20 Operational Plan, Draft Long Term Financial Plan and Interim Audit Update be received and noted.

MOVED: Phillip Burgett

SECONDED: Neil Maltby

CARRIED

10. Lithgow Council

The Quarterly Budget Review, Draft 2019/20 Operational Plan, Draft Long Term Financial Plan and Interim Audit Update were presented.

QBR – Q3 LCC reported a satisfactory position at year end, this is the first time for quite some time. Although LCC had some carry overs from the prior year they have been able to find sufficient savings and additional income to bring that back to the budget.

The 2019/20 Draft Operational Plan has been on public exhibition and a report will be presented in June for adoption. It has been included in the assumption that the full SRV would be approved, however approval has been received for a 9% increase rather than the 11% applied for. This has been adjusted and the maintenance portion of the SRV has been taken out. The goal was to deliver a balanced operating result. To meet the OLG benchmarks in recent years LCC has had a slight deficit and is keen to maintain that.

LCC has completed all of the action items for 2018/19 audit action list.

Interim audit – LCC has met with the audit partner, Ash at Crowe Horwarth and are still awaiting their management letter, however they are not expecting any significant issues.

LTFP has been updated at the end of last year for the SRV application.

Gabriel Faponle advised Ash had briefed them on what Crowe Horwarth had found in terms of their issues. The Management Letter is currently in draft stage and needs to go to Audit Office.

THAT Lithgow City Council's Quarterly Budget Review Statements, Draft 2019/20 Operational Plan, Draft Long Term Financial Plan and Interim Audit Update be received and noted.

MOVED: Neil Maltby

SECONDED: Phillip Burgett

CARRIED

11. Meeting Close

There being no further business the Chairman closed the meeting at 11.34am.