Central Tablelands Alliance (CTA) Audit, Risk and Improvement Committee (ARIC) Annual Report - 2019/20

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1. Introduction

In 2016, the NSW Government made it a requirement under the Local Government Act 1993 that each council have an Audit, Risk and Improvement Committee (ARIC). This requirement is expected to take effect from March 2021 after which all Councils must have established an ARIC.

The Government has since been working with key stakeholders and industry experts to develop the regulatory framework that will support the operation of ARICs and the establishment of a risk management framework and internal audit function in each council.

Central Tablelands Alliance (CTA) Audit, Risk and Improvement Committee (ARIC) (the Committee) has been established by Lithgow City and Oberon Councils as a key component of their governance framework. One of the benefits of sharing an ARIC is that it allows the two Councils to share "best practice" experience and knowledge.

The Committee was appointed in 2018 and held quarterly meetings until June 2019. Both of the Councils conducted a review of the structure and functions of the Committee and reconvened it in November 2019.

The Charter of the Committee adopted by the Councils requires the Committee to report to the Councils on its activities at least annually. This report covers the period from November 2019 – 30 June 2020.

Prior to its presentation to Council, this Annual Report was reviewed and endorsed by the members of the Committee.

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Audit Office of New South Wales

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2. What does the ARIC do?

The CTA ARIC is an independent advisory Committee appointed by both Councils to assist the Councils in fulfilling their governance and oversight responsibilities.

The Committee offers independent expert advice on risk management, compliance, external accountability, internal control effectiveness and work plans for external and internal audit in both Councils. It also provides information for the purpose of contributing to improvement of the Councils' performance of their functions.

The Committee's objective is to provide independent advice and assistance to both Councils. This is achieved by receiving information and providing advice about each Council's policies and procedures to manage the following areas of the Committee's responsibility:
· Compliance;
· Risk management;
· Fraud control;
· Financial management;
· Governance;
· Implementation of the strategic plan, operational plan and delivery program;
· Service reviews;
· Collection of performance measurement data; and
· Any other matters prescribed by the regulations.

3. ARIC Charter

The ARIC Charter 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. The Charter acknowledges that Lithgow City Council and Oberon Council may be at different stages of maturity in relation to the Committee's performance of its responsibilities and functions.

The Committee works with both Councils to progressively ensure that the new requirements of the Act are adequately considered as part of the continuous improvement process.

The Committee is required to review the Charter at least once every four years.

The current Charter was recommended by the Audit, Risk and Improvement Committee for adoption on 17 March 2020. It was adopted by Lithgow City Council on 25 May 2020 and Oberon Council on 5 May 2020.

4. Committee Structure

Membership of the Committee comprises the following:
- the Mayor of each Council (or their delegate)
- A Councillor of each Council; and
- Three (3) independent members.

One of the independent members is elected by the Committee to be the Chair of the Committee.

Independent members of the Committee are selected following an expression of Interest process.

Meetings are held quarterly and alternate between each Council.

5. Profiles of the members

Members of the Committee during the period covered by this report are:

The Mayor of each Council

Ray Thompson, Lithgow City Council

Kathy Sajowitz, Oberon Council

Councillors

Clr Steve Ring, Lithgow Council

Clr Mark Kellam, Oberon Council

Independent members

Neil Maltby was appointed June 2018 and re-appointed in 2019 for the remaining term of the current Councils. Neil was elected Committee Chair in December 2019.

Neil has over 45 years of senior commercial business management experience in medium sized entities operating in numerous industries across Australia, and has operated his own consulting business for the past 10 years. He is currently an independent member and Chair on two regional Council Audit and Risk Committees. Neil is a Fellow of Chartered Accountants Australia and New Zealand.

Phillip Burgett was appointed as an independent member of the CTA Audit, Risk and Improvement Committee in June 2018 and re-appointed in 2019 for the remaining term of the current Councils. He has extensive experience in providing independent audit, risk management and corporate governance services across a number of business sectors with a specific interest in local government. He is currently an independent member on seven (7) local government audit, risk and improvement committees and is a director of Westfund Limited, a private health insurer based in Lithgow, NSW. Phillip is a chartered accountant whose professional career commenced with Peat Marwick (now KPMG) and for twenty four (24) years was a partner of accounting and business advisory firm Alan Morse & Co (now Morse Group) before retiring in 2011.

Dr Philip Ross, appointed May 2020. Dr Philip Ross has extensive experience in local and international higher education, as well as substantial industry and public sector experience in audit and governance. Dr Ross is an active member of Chartered Accountants Australia and New Zealand (CAANZ) via his contributions to the CA program. He has held roles as a member and chair of seven (7) NSW Local Government Audit Risk and Improvement Committees over the past 18 years.

6. ARIC meetings and participation

Meeting date	Thompson	Sajowitz	Ring	Kellam	Maltby	Burgett	Ross
3 Dec 2019			n/a	P	P	P	n/a
17 Mar 2020			n/a	P	P	P	n/a
7 Apr 2020	P		P		P	P	n/a
9 Jun 2020	P	P	P	P	P	P	ü

All non-attendance at Committee meetings was supported by apology. The meeting on 17 March 2020 was a meeting of the joint Councils and Oberon Council. Due to the lack of a quorum on 17 March 2020, the Lithgow Council meeting was reconvened to 7 April 2020.

7. Lithgow City Council Report on the Committee's Operations and Activities

7a. Overall assessment of Councils' risk, control and compliance framework, including details of any significant emerging risks or legislative changes impacting the Council

Lithgow City Council has a Risk Management Framework in place. The frame work includes:

·   Risk Management Policy
·   Risk Management Strategy & Context 2018-2022
·   Risk Management Plan 2018-2022

The Risk Management Policy was adopted by Council on 23 September 2019.

Council maintains a comprehensive Risk Register in the Pulse system, including management of project risks.

The ARIC's role is to receive information and provide advice on Councils' risk management arrangements. Each quarter the Committee receives a report on new risks added to the Risk Register, any risks reassessed to a higher risk rating and any risk management issues which have arisen. The ARIC has noted no concerns with Council's risk management systems and processes in the 2019/20 year.

An emerging risk of significance is IT security. The NSW Audit Office has taken a strong interest in IT security in local government and has included recommendations in recent management letters. To mitigate cyber security risk, the Council installed Intercept X software in 2019 which provides end point detection, anti-ransomware and exploitation prevention. In early 2020, the Council developed a comprehensive range of IT security policies with the assistance of Kaon Security.

7b. Summary of the work the Committee performed to fully discharge its responsibilities for the period.

At each quarterly meeting of the ARIC, the Committee received reports from the Council on each aspect of its responsibilities and functions. The ARIC's role is one of oversight, to monitor the systems and processes in place for each area of its responsibility.

The Committee discharges its responsibilities by reviewing the reports provided by Council. The focus of the reports includes assurance that activities have occurred, reporting of significant changes, exception reporting and reporting on the implementation of changes to key systems and processes. In addition, the Committee reviews internal audit reports and reports provided by Council's external auditors.

In exercising its functions, the Committee maintains a record of outstanding actions agreed by management, the progress of which is reported to each meeting until the Committee is satisfied implementation is complete. Recommendations and actions endorsed by the Committee are recorded in the meeting minutes. Meeting minutes are reported to Council.

7c. Summary of Council's progress in addressing findings and recommendations made in internal audit reports, external audit reports and management letters and service reviews.

Lithgow City Council's interim and final external audit management letters raised a number of matters that require management actions:
· Interim management letter for year ended 30 June 2019: 14 matters.
· Final management letter for year ended 30 June 2019: 8 matters.

At 30 June 2020, all of the 2018/19 external audit management letter actions had been substantively completed. There is ongoing work to further develop the Finance Policies and Procedures Manual which will be reviewed by the external auditors at the time of 2019/20 final audit.

Lithgow City Council completed a Payroll Activities internal audit in January 2020. There were 8 actions arising from the Payroll Activities audit, of which 5 actions have been completed. The remaining 3 actions are on track to be completed by 30 September 2020.

A Project & Contract Management internal audit was completed in May 2019. Completion of actions arising from this audit were ongoing throughout 2019/20. Of 9 actions in total, 1 action has been completed. Due to delays resulting from the allocation of resources to Council's bushfire recovery and COVID-19 responses, a contractor was engaged in May 2020 to assist with completing the remaining agreed actions. The remaining actions are on track to be completed by 30 September 2020.

7d. Summary of the Committee's assessment of the performance of the Council's internal audit function.

Council does not employ or retain the services of an internal auditor but seeks expressions of interest for each audit in the Annual Internal Audit Plan which provides a flexible approach to allow the specific skills required for each audit to be engaged.

In 2015, Grant Thornton completed a Three Year Internal Audit Strategy & 2015/16 Internal Audit Plan. The second and third year internal audit plans did not progress.

The Council has stated that, due to resourcing constraints, it is feasible for Council to complete just two internal audit projects per year for the next three years.
Over the 2019/20 year, the ARIC assessed that a Three Year Internal Audit Plan should be a high priority for the Council. The Committee has monitored the development of Council's Internal Audit Plan.

In June 2020, Council management finalised a Three Year Internal Audit Plan based on the Grant Thornton report with reference to Council's current Risk Register. The Internal Audit Plan was presented to the June 2020 ARIC meeting and a subsequent Council Finance Committee meeting.

The Internal Audit Plan includes the following audits in the 2020/21 year:
·   Records Management
·   Plant & Fleet Management

Where possible, audits for both Councils will be scheduled around similar times and the Councils will work together to gain the benefits of joint procurement where practicable.

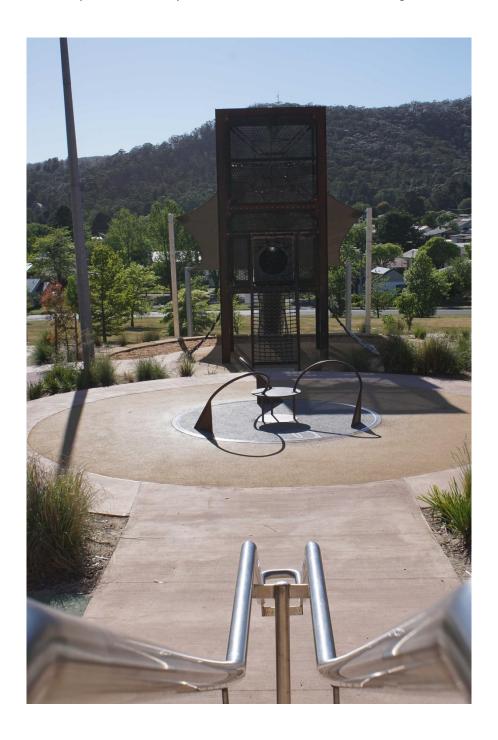## 7e. Summary of Council`s business improvement activities.

Business improvement is an integral part of the Council's strategies of continuous improvement and identification of long-term cost savings. In the 2019/20 year, the Committee received reports and commented on the adequacy of the Council`s business improvement activities and the progress of service reviews.

In the 2019/20 year, Lithgow Council purchased Pro-Mapp process mapping software to assist with process improvement and service reviews. The Rangers service review was completed and an action plan finalised.

Progress was made towards implementing the new Asset Management System with ongoing work to collect and verify asset data and the commencement of the computerised works order project.

Council installed solar panels on its administration building to save energy costs and carbon emissions and is planning a similar solar panel installation at the JM Robson Aquatic Centre.

Council will continue to develop and implement business improvement initiatives into the 2020/21 year, driven by Council's Service Review Program.

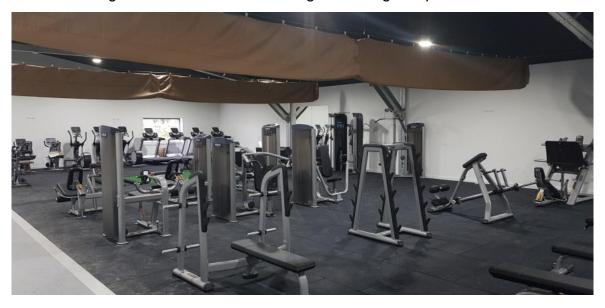# 8. Oberon Council Report on the Committee's Operations and Activities

8a. Overall assessment of Councils' risk, control and compliance framework, including details of any significant emerging risks or legislative changes impacting the Council.

Oberon Council has a Risk Register in place which is in line with Councils Risk Management Policy. The Risk Management Policy is due for renewal by Council in the second half of 2020.

ARIC's role is to receive information and provide advice on Councils' risk management arrangements each quarter. While the Committee has reviewed Oberon Council's Risk Register, in response to the Committee's request, Council is developing a risk management action sheet for the Committee to receive reports on new risks added to the register, any risks reassessed to a higher risk rating and any risk management issues which have arisen for review at each Committee meeting.

The NSW Audit Office has taken a strong interest in IT security in local government and has included recommendations in recent management letters. Oberon Council is a fully managed customer of Civica and so is covered under their Cyber Security arrangements. However, Councils external connections at the main office and the library are protected by firewalls. Other Council sites such as the Depot, Pool and Visitor Information Centre are routed through the main office and are also protected by the main firewall. The radio links between the Pool, Visitor Information Centre and Administration Centre are checked monthly for firmware upgrades to ensure bugs and vulnerabilities are reduced.

Windows 10 and Office 365 are set up to automatically update for all users. All computers are installed with anti-virus, anti-malware software. Web traffic is directed through a web filter and all email goes through a spam filter.

8b. Summary of the work the Committee performed to fully discharge its responsibilities during the period

At each quarterly meeting, the ARIC Committee receives reports from Council on each aspect of its responsibilities and functions. The ARIC's role is one of oversight, to monitor the systems and processes in place for each area of its responsibility.

The Committee discharges its responsibilities by reviewing the reports provided by Council. The focus of the reports includes assurance that activities have occurred, reporting of significant changes, exception reporting and reporting on the implementation of changes to key systems and processes.

In exercising its functions, the Committee maintains a record of outstanding actions agreed by management the progress of which is reported to each meeting until the Committee is satisfied implementation is complete. Recommendations and actions endorsed by the Committee are recorded in the meeting minutes. Meeting minutes are reported to Council.

8c. Summary of Council's progress in addressing the findings and recommendations made in internal audit reports, external audit reports and management letters

Oberon Council's interim and final external audit management letters for 2018-19 raised a number of matters that required management actions:
· Interim management letter for year ended 30 June 2019: 4 matters
· Final management letter for year ended 30 June 2019: 1 matter.

At 30 June 2020, all of the external audit management letter actions have been substantively completed. There is ongoing work in relation to the new accounting standards implementation to be reviewed by the external auditors as part of the 2019/20 final audit.

A Project and Contract Management internal audit was completed in May 2019, which identified eleven (11) management actions. Actions arising from the audit were ongoing throughout 2019/20.

8d. Summary of the Committee's assessment of the performance of the Council's internal audit function.

The Council does not employ or retain the services of an internal auditor but seeks expressions of interest for each audit in the Annual Internal Audit Plan which provides a flexible approach to allow the specific skills required for each audit to be engaged.

In 2015, Grant Thornton completed a Three Year Internal Audit Strategy & 2015/16 Internal Audit Plan. The second and third year internal audit plans did not progress.

The Council has stated that, due to resourcing constraints, it is feasible for Council to complete just two internal audit projects per year for the next three years.

Over the 2019/20 year, the CTA ARIC assessed that a Three Year Internal Audit Plan should be a high need for the Council. The Committee has monitored the development of Council's Internal Audit Plan.

Council will undertake a Risk Management internal audit during the first half of 2020/21. Once this process is completed, Management will develop a Three Year Internal Audit Plan for endorsement by the Committee.

Where possible, audits for both Councils will be scheduled around similar times and the Councils will work together to gain the benefits of joint procurement where practicable.

9. Other achievements of the Committee

In addition to its core responsibilities and functions, other achievements of the CTA ARIC for the 2019/20 year include:

· Development and adoption of a revised ARIC Charter.

· Appointment of second Councillor voting member (for each Council).

· Recruitment and appointment of Dr Phil Ross as a third independent member.

· Input to a Lithgow City Council submission on the New Risk Management and Internal Audit Framework.

· Development of an internal audit function at both Councils.

10. Conclusion

The areas of responsibility of the CTA ARIC set out in the Committee Charter are managed in consultation with the relevant Council Finance Directors and supported by the internal audit and external audit plans executed during the year.

Based on the information provided to the Committee from the member Councils` management, internal audit reports and external auditors, the CTA ARIC acknowledges the progress of each Council's arrangements for governance, risk management, internal control and regulatory compliance appropriate for each Council. The CTA ARIC will continue to assist the Councils` management in the development of a framework that will satisfy the foreshadowed requirements of the New Risk Management and Internal Audit Framework.

Neil Maltby
CTA ARIC Chair
17 August 2020