



**CENTRAL TABLELANDS ALLIANCE (CTA) AUDIT and RISK  
IMPROVEMENT COMMITTEE (ARIC)**

**MINUTES**

**Wednesday 4 November 2020**

**Lithgow City Council – Planning Session**

**12:30 to 1:30 pm**

**Attendees**

<b>Voting</b>	
Neil Maltby	Independent Member & Chair
Phillip Burgett	Independent Member
Phil Ross	Independent Member
Steve Ring, Councillor	Lithgow City Council
<b>Non-Voting</b>	
Craig Butler, General Manager	Lithgow City Council
Ross Gurney, Chief Financial and Information Officer	Lithgow City Council
Rhiannan Whiteley, Secretariat	Lithgow City Council

**Apologies**

Ray Thompson, Mayor	Lithgow City Council
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**1. Planning Session**

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The General Manager provided context with regards to the purpose of this meeting and advised that he had previously had discussions with each of the independent members regarding the purpose and functions of the Committee.

GM would like to discuss the background of the Joint Committee, what does success look like and how the Committee is tracking so far. Also, the most important areas to focus on and the strategic program for the Committee in the period ahead.

Previously the Committee had agreed on a 2020/21 audit of Records Management which while it is necessary may not be the highest priority.

Phil Ross provided guidelines from the Victorian Government who are implementing an Audit Risk & Advisory Committee model. In NSW, the OLG will be releasing guidelines in early 2021



which will be a good opportunity to review the operations of the Joint Committee. The new term of Council is also timely for a review.

Independent member positions and the Committee Chair role are appointed at the commencement of a new term of Council.

CFIO advised that the Committee Charter covers independent member and Chair appointment process, however, the OLG will most likely issues a new charter and/or terms of reference which Council would need to review upon release.

CFIO provided background on the Joint Committee arrangements – the former GM reconvened the committee with Oberon involved. For the first period of time there were single Joint Committee meetings. The Committee was put on hold and the Charter was reviewed in June 2019 and within 6 months re-commenced with separate meetings of each Council. For Lithgow, benefits have included resource sharing and sharing the costs.

Phil Ross suggested that a good outcome from the planning session would be to have a work schedule for the Committee for the next year. He provided templates to the Committee for consideration, from the Victorian Government. The template work plan outlines the Committee responsibilities for each year and sets the agenda for the year. It would be a useful tool to utilise and assist CFIO with planning the meeting.

Once the Lithgow Council work schedule for the Committee is finalised, it can be determined if there should be a work schedule for the Joint Committee. The starting point is to finalise the schedule for the Lithgow Committee for the next year and then see if there are functions for the Joint Committee.

CFIO believed that the Joint Committee could be involved in the Audit Office Performance Audit reports which are applicable to both Councils, although the response to the reports would be different for each Council. We have previously shared a Contract and Project Management Audit with Oberon but at this point in time Oberon isn't ready to commence their internal audit program for this financial year.

The reality is every Council is different and at different stages and with different priorities. The idea of cost savings and collaboration were initially the reasons for joining with Oberon. There are logistical issues with organising meetings for both Councils.

The Committee agreed to continue with the Joint Committee until the end of the Council term then review before proceeding. In the meantime we need to ensure that we are getting value from of the Committee and clarity regarding the work program.

GM will have discussion with Oberon GM once Lithgow have determined their work program for the year ahead and see if there is any alignment with their plan.

Neil Maltby questioned how can you pre-empt internal audits for three years? Fraud control seems to be a major item put forward for review and he believes that you can benefit from having surprise audits. Fraud control should not only review financial controls but also processes and ensuring that all invoicing is being issued. Neil suggested that each area of review should be selected at the commencement of each year rather than over a 3-year period.



CFIO advised that any Audit Plan needs to be flexible and reviewed on a regular basis. The reason for a 3-year strategy is as a result of a finding from the External Audit Management Letter. There is an expectation from the OLG and audit office that Councils have a 3 year internal audit plan.

While a 3-year plan is developed, it is still flexible and can adjust to changing priorities. A 3-year plan just gives an outline of the key risks in the organisation to be reviewed.

The Annual Work Plans for the Committee would assist with planning for the next 12 months. The plan generally stays the same year by year. Once it is established it will stay the same and be reviewed by the Committee each year.

In the agenda reports provided to the September Committee meeting, the CFIO presented a forward work plan which could be adapted to the Victorian Government template. For example, review of the Compliance Policy was due this year and has been completed and then adopted by Council so the policy could be an agenda item for the December ARIC meeting. A number of improvements that were planned for this year can be put on the agenda for input from the Committee. CFIO to come back with a draft work plan based on items included in the September meeting agenda reports then the Committee can provide feedback on the plan. Our model will vary slightly to the Victorian template. For example, the NSW LG Act includes strategic plan reviews, service reviews and internal audit plans. Some of the information on the Victoria template isn't relevant or timing is different. WHS is an item of relevance, Asset Accounting policies are also another critical item for the Committee to consider. CFIO to develop a proposed draft work plan and distribute to the Committee for consideration at the next meeting.

Phil Burgett commented that a work plan is a great idea. One area that ARICs could pay more attention to is effectiveness of the operational internal control framework. When we have a review of the internal control environment he would like to see more emphasis on assurance around the actual procedures in place on an operating level and that they are working.

Council's reliance on the external auditors for assurance around controls was questioned. Council still needs to make sure we are covering any control assurance gaps. External auditor is responsible for monitoring and assessing the financial controls. The management letter becomes important for this Committee in identifying any internal control weaknesses that the Committee should ensure are followed-up. We do rely on the work of the external auditor as they sign-off the accounts. The Committee might seek clarity and detail in the Audit Engagement Plan to understanding the extent of testing of the internal controls. The External Auditors are looking at the internal control system from the point of view of forming an opinion on the financial statements whereas from an internal point of view we are requiring a deeper dive in terms of the control systems.

The GM referred to the 'Improvement' part of the ARIC's functions. The independence of the external auditor gives comfort but their review is retrospective and we are aiming to be proactive. We need ongoing review of policies, procedures and practices. The role of the internal auditor is to provide a greater level of assurance around the procedures and processes, policies and implementation of these. Ensuring that the checks and balances built into a system are effective. There is always potential for a gap between the written policy and procedure and what occurs in practice. With regards to the Internal Audit Plan, perhaps think about driving that internal control view deeper in an operational sense and away from the financial controls (reviewed by the external auditor. Council have a complex range of operations and different businesses and controls extend throughout the organisation, not only financial controls. The Risk Register covers



all aspects of operations and to control and mitigate risks you put in place policies and procedures and practices. The internal audit program ensures that risk mitigation policies and practices are being implemented. The External auditors are focused on financial controls whereas this Committee needs to have a broader function that is informed and driven by the Risk Register.

CFIO will replace upcoming years in the work plan and replace it with the dates for the upcoming meetings until the end of the Council term.

The Victorian model self-assessment template could be used at the end of the Committee's term to identify opportunities to make further improvements.

### **INTERNAL AUDIT PROGRAM**

In the 3-year internal audit plan was an audit for records management. Quotes have been obtained but we have not proceeded with the audit yet. Fleet management is also in the 2020/21 plan. The General Manager has asked for a quality assurance framework to be developed for Water & Wastewater. We have a large number of customers, regular water billing, meter issues, leaks, environmental compliance requirements, delivery of quality potable water and a history of network issues. The Water & Waste Water Director is working with consultants to develop a framework. It's a high risk area and one that should be of interest to the Committee.

GM is interested in the Committee assisting with the Water and Wastewater framework and area as a higher priority than records management.

The Director of Water & Wastewater has advised that compliance audits are undertaken regularly and there are outstanding audit actions from these audits. GM and CFIO need to discuss with the Director Water and Wastewater to narrow down to an internal audit scope. There are a large number of compliance reports that must be sent to the Department of Health and EPA etc. It is a highly monitored and regulated area but we need assurance that Water and Wastewater governance and functions are effective.

The audit scope will need to be narrowed. CFIO to research if other Councils have completed reviews and the types of reviews completed.

The Auditor-General published a report on 24 September 2020 into the support for regional town water infrastructure. Phil Ross queried whether the report has any impacts. Water and Wastewater are in the process of developing an IWCM. No major impacts – it is more in terms of the level of resourcing and support that the government is giving to the IWCM process.

CFIO has scheduled a meeting with the Director Water & Wastewater to discuss the Auditor General's report and will report to the Committee in December on that report and other performance audit reports.

Committee members can review the scope of the proposed Water & Wastewater audit and provide feedback.

If we proceed with a Water and Wastewater Audit, we could proceed with the records management audit concurrently as the second audit for the year.



Quotations would be sought for a Water & Wastewater audit and we could seek quotes from industry specialists. CFIO can asked the Director of Water and Wastewater if there are any specialists. We generally refer to the LG Procurement contract and there are quite a few internal audit firms listed. We usually ask 4 or 5 providers for quotes.

Phil Ross asked a question in relation to the business improvement area. Council had a staff member employed to conduct service reviews. CFIO advised that the executive team is looking at strategies (due to of our financial position) to increase revenue and cut down costs so we are reviewing key areas such as worker's compensation and other insurances. Also considering how we can use technology to improve productivity, we are switching to the cloud enterprise system shortly which we are expecting will make a difference for our staff accessing the systems and speed up processes.

Management need to consider how we progress service reviews before seeking feedback from the Committee. We are working with our insurer on a continuous improvement plan. We need to make sure we address the improvement areas identified in the plan.

### **Meeting Closed**

There being no further business the meeting concluded at 1.24pm.