



## Audit, Risk and Improvement Committee (ARIC) Annual Report to Council 2021

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## 1. Introduction

The Charter of the Committee adopted by Council requires the Committee to report to Council, at least annually, on its activities, operations and performance.

This report covers the period from 1 July 2020 – 30 June 2021. Prior to its presentation to Council, the report was reviewed and endorsed by the members of the Committee.

Council's ARIC Committee has been established by Council as a key component of its governance framework. The Charter for the Committee has been developed with reference to guidelines issued by the Office of Local Government.

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

Membership of the Committee comprises Councillor and independent members. Independent members of the Committee are selected following an expression of interest process.

## 2. Audit Risk & Improvement Committee Report

### 2.1. Charter

The Local Government Amendment (Governance and Planning) Act 2016 (the Act) requires Councils to appoint an Audit, Risk and Improvement Committee (ARIC). The amendment specifies a range of aspects of Council's operations that the Committee must keep under review.

Although the Act provisions are yet to be proclaimed, the Committee's responsibilities and functions are based on the aspects of Council's operations specified in the Act.

The Charter established the Committee jointly by Lithgow City Council and Oberon Council. In the 2020/21 year, the Committee has held joint meetings with Oberon Council to discuss matters in common. The joint meetings have been followed by meetings of the individual Councils. This report focusses on the activities of the Lithgow Council ARIC.

The current version of the Charter was adopted by Council on 25 May 2020 (Min. No. 20-130).

### 2.2. Committee Membership

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

#### **Councillor Members:**

Cr Ray Thompson (Mayor)

Cr Steve Ring

#### **Independent Members:**

Neil Maltby (Chair)

Phillip Burgett

Dr Philip Ross

#### **Background on Independent Members**

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 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.

### 2.3. Committee Meeting Attendance

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

**Table 1. Summary of Committee Meetings and Members Attendance**

Meeting date	Mayor Thompson	Cr Ring	Neil Maltby	Phillip Burgett	Phillip Ross
9 September 2020	✓	✓	✓	✓	✓
4 November 2020	*		✓	✓	
9 December 2020	✓	✓	✓	✓	✓
9 March 2021	✓	✓	✓	✓	✓
8 June 2021	*	✓	✓	✓	✓

Deputy Mayor Wayne McAndrew attended the 4 November 2020 meeting in the Mayor's absence. All non-attendance at Committee meetings was supported by an apology.

### 2.4. Role of the Committee

The Committee's objective is to provide independent advice and assistance to Council. This is achieved by receiving information and providing advice about Council's policies and procedures to manage the following areas of the Committee's responsibility as stated in the Charter:

- 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.

### 2.5. Key Activities Undertaken During the Reporting Period

The Committee has developed an annual work plan that guides its considerations at each meeting and ensures that the Committee addresses all responsibilities under its Charter. These responsibilities were outlined in Section 2.4.

The following summarises key activities undertaken by the Committee during the reporting period:

- Approved and submitted its inaugural Annual Report to Council.

- Reviewed and monitored management's responses to internal and external audit recommendations, which strengthen Council's internal control environment.
- Reporting of material COVID-19 impacts to Council at each Committee meeting, including Council actions/responses undertaken to mitigate any actual/potential risks, as well as impact to the financial statements.
- Reviewed Council's 2019/20 financial statements.
- Reviewed the ICAC Report: Dealing with Corruption & Fraud: The role of public sector Audit & Risk Committees.
- Considered the findings of the Audit Office Performance Audit - Credit card management in Local Government and items of relevance to Council.
- Considered the Audit Office Performance Audit - Governance and internal controls over local infrastructure contributions and items of relevance to Council.
- Considered the Audit Office Performance Audit - support for regional town water infrastructure and items of relevance to Council.
- Considered the Auditor-General's report on the results of the Council financial statement audits for the year ended 30 June 2020.
- Conducted an ARIC Self-Assessment and reviewed the survey results at the June meeting.
- Reviewed improvements planned and completed by Council in 2020/21, in each of the Committee's areas of responsibility.
- Provided advice on Council's ongoing cashflow issue.
- Reviewed and reassessed the Three Year Internal Audit Plan.
- Reviewed Council's management of legal and WHS risks.
- Received reports on key governance processes (including the policy register & any significant conflicts of interest).
- Assessed new risks, emerging risk management issues and risks which have been reassessed to a higher risk rating.
- Reviewed actions arising from the StateWide Mutual Continuous Improvement Pathway project.
- Reviewed the 2020/21 Audit Engagement Plan with management and external auditors.
- Reviewed Council's fraud risk assessment.
- Monitored the progress of the OLG's draft paper titled "A New Risk Management and Internal Audit Framework for local councils in NSW" to ensure Council and the Committee are ready to implement the proposed requirements once OLG makes their amendments and/or decisions.
- Completed all of the items included in the 2020/21 Annual Work Plan.

## 2.6. ARIC Self-Assessment

In 2021, an ARIC self-assessment survey was conducted. The results of the survey were presented to the 8 June 2021 ARIC meeting.

Most of the responses to the questions were in the "Adequate" to "More than Adequate" response categories.

The Chief Financial & Information Officer will prepare a report to a future Committee meeting on strategies to improve in the survey areas identified as "Less than Adequate".

## 2.7. Internal Audit

### Internal Audit Plan

The Three Year Internal Audit Plan 2020/21 to 2022/23 was reported to the 9 June 2020 ARIC meeting.

Planned internal audit projects reviewed by the Committee during the reporting period were:

- Records Management

A Drinking Water Management System internal audit project was scheduled to commence late in the 2020/21 year, however, the project has been delayed due to the necessity for agreements with NSW Health.

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

### A New Risk Management and Internal Audit Framework for Local Councils in NSW

In 2016, the NSW Government made it a requirement under the Local Government Act 1993 ("Act") that each council have an ARIC in place. This requirement was intended to take effect from March 2021, however COVID-19 and the submissions received by the OLG appear to have deferred it to a date to be advised. Councils are also required to proactively manage any risks they face under the new guiding principles of the Act.

The Discussion Paper published in September 2019 outlined the legislative framework to provide guidance on how Councils should establish and operate an ARIC and complementing internal audit and risk management functions.

Council, with the assistance of the ARIC Independent Members made a submission to the Office of Local Government on this draft paper at the end of 2019. Lithgow Council's Chief Financial and Information Officer attended an Institute of Internal Auditors ARIC Training Workshop on 27 May 2021 and reported to the 8 June 2021 meeting on developments relating to the framework.

## 2.8. External Audit

The Local Government Amendment (Governance and Planning) Act 2016 gave the Auditor-General the mandate to also audit NSW local councils. During the reporting period, the NSW Audit Office contracted the external audit of Council's 2020/21 financial statements to Crowe Australasia.

Both Audit Office and Crowe representatives attended Committee meetings during the period. The Committee also reviewed the 2020/21 Annual Audit Engagement Plan at the 8 June 2021 meeting with the external auditors present for the discussion.

The 2019/20 audit produced an unqualified audit opinion, with no significant areas of concern noted. The OLG granted Council an extension of time to lodge the financial statements due to an accounting issue related to Council's external restrictions. The financial statements were lodged on 18 December 2020, within the extended deadline.

There were six findings (3 moderate risk, 3 low risk) included in the final audit management letter. All recommended management actions related to the management letter findings were finalised by February 2021.

### 3. Committee Work Plan for 2021/22

A Committee work plan has been developed for the 2021/22 year.

At the 8 June 2021 meeting, the Committee considered the future direction of the CTA ARIC for the new Council term. An option is for each Council to have a separate committee with common independent members. Each Council is at a different stage of maturity in its risk management framework and the Councils have different risk profiles. Each General Manager will engage with their new Council shortly after the election about the preferred future model for an ARIC. In July 2021, the Council election was delayed until 4 December 2021.

In 2021/22, the Committee will continue to monitor OLG's final decision following input to their draft paper titled "A New Risk Management and Internal Audit Framework for local councils in NSW" in late 2019, and assist Council in preparing for and implementing the 'yet to be determined' requirements.