

**UNCONFIRMED MINUTES
OF THE AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING OF PENRITH CITY
COUNCIL HELD IN THE PASSADENA ROOM, PENRITH
ON WEDNESDAY 6 JUNE 2018 AT 8:00AM**

PRESENT

Bruce Turner AM (Chair), Councillor Ross Fowler OAM, Councillor Kath Presdee, Elizabeth Gavey, Darren Greentree and John Barbeler.

Alan Stoneham (General Manager), Craig Butler (Assistant General Manager), Karen Taylor (Director Financial Audit Services, Audit Office of NSW), Stephen Britten (Chief Governance Officer), Neil Farquharson (Acting CFO), Matthew Bullivant (Legal Services Manager), Anthony Robinson (Risk and Audit Coordinator) and Stuart Benzie (Internal Audit and Policy Officer)

APOLOGIES

His Worship the Mayor Councillor John Thain.

CONFIRMATION OF MINUTES - Audit, Risk and Improvement Committee Meeting - 7 March 2018

ARIC15 RESOLVED on the motion of Elizabeth Gavey seconded by Ross Fowler that the minutes of the Audit, Risk and Improvement Committee Meeting of 7 March 2018 be confirmed.

DECLARATIONS OF INTEREST

There were no declarations of interest.

DELIVERY PROGRAM REPORTS

OUTCOME 7 - WE HAVE CONFIDENCE IN OUR COUNCIL

2 Action Items

Anthony Robinson took the Committee through the Action Items.

Anthony specifically noted the following things:

Draft Internal Audit Charter- an additional Appendix was included to provide for a Balanced Scorecard. Managers will generally bear the responsibility for signing off on audit items, though Executive Managers will be copied in. Balanced scorecard is in line with requirements of the Institute of Internal Auditors.

Bruce Turner noted that the Balanced Scorecard was a good balance between qualitative and quantitative criteria.

The Committee noted that the following Action Items could be closed:

1. A11 – Changes to Draft Internal Audit Charter
2. A19 - Provide ARIC with a copy of Council's Complaints Management Policy
3. A25 – Unsolicited Proposals Policy

Draft Internal Audit Charter

It was noted that there was an inconsistency on p.13 of the Draft Internal Audit Charter at 3.4 where it should read either 10 or 15 days.

It was noted by John Barbeler that the lines in the diagram on p.4 of the Draft Internal Audit Charter should be firm lines in order to show the importance of the relationships.

Darren Greentree questioned who would be conducting the external assessment of the Internal Audit function. Anthony Robinson noted that we would go out to tender for this requirement in Quarter 2 2018/19. Bruce Turner noted that Internal Audit should come back to the September meeting with a Terms of Reference and a plan for audit.

Risk Management Policy

John Barbeler noted that the document needed to contain a clear statement that the General Manager has a clear leadership role in development and application. The GM concurred and this will be expressed within the document, with no need to return to ARIC.

Cyber Insurance

Elizabeth Gavey noted that cyber insurance was limited to \$2.5m, and wanted a more detailed explanation of the exclusions or unusual conditions within the insurance policy.

It was noted that Andrew Moore will provide a more detailed explanation on the insurance and safeguards to be included within the business paper for the next ARIC meeting.

Of the outstanding items, Bruce Turner considers the following to be of most importance:

1. Overall governance framework
2. Probity Policy
3. Charter of Rights for staff who are the subject of complaints
4. Reconciliation Action Plan – Stuart Benzie advised that the Community and Cultural Development Manager will be providing a report at the September meeting
5. Risk Statement in decision making reports

RECOMMENDATION

ARIC 16 RESOLVED on the motion of Darren Greentree seconded by Elizabeth Gavey that the information contained in the report on Action Items be received.

5 Audit Office of NSW Update

Karen Taylor from the Audit Office of NSW spoke to the financial audit report to Parliament for Councils.

Karen noted that each council should assess how they would rate against the Report.

Bruce Turner noted that most of the recommendations from the Report are represented in Penrith City Council's Internal Audit Plan, and that Penrith City Council are well placed.

Karen also noted that a presentation was made to all ARIC Chairs, and the presentation was available.

It was further noted that the audits being conducted by the Audit Office were progressing at Penrith City Council.

RECOMMENDATION

ARIC 17 RESOLVED on the motion of Darren Greentree seconded by John Barbeler that the information contained in the report on Audit Office of NSW Update be received.

13 Update on the preparation of the Annual Financial Statements for the year ended 30 June 2018

Neil Farquharson, Acting CFO spoke to the report and introduced Daniel Moore, Financial Account, who spoke on the preparation of the 2017/18 Financial Statements.

Daniel advised that the 2017/18 statements are on track. It was noted that, as was the case last year, special Schedule 7 will not be audited.

There was discussion regarding the valuation process that resulted in material inconsistencies with operational land valuations. The valuations were undertaken by a contract Valuer and Council has expressed its dissatisfaction with the work provided.

There are three new accounting standards that are applicable from the 30 June 2019 (AASB 9 and AASB 15) and 30 June 2020 (AASB 16). Reference to the new standards will be included in "New accounting standards and interpretations issued not yet effective". An outline of the potential impacts from the new standards will be provided however they will not be adopted ahead of time.

The ARIC asked the Finance Department to:

1. report to the ARIC Committee in 2018 with a plan around the implementation of the new Accounting Standards.
2. Note that inconsistencies in assumptions were apparent in the valuation booking process, and notes that these issues are to be taken into consideration when going out for future tender for Valuers.

RECOMMENDATION

ARIC 18 RESOLVED on the motion of Darren Greentree seconded by John Barbeler that the information contained in the report on Update on the preparation of the Annual Financial Statements for the year ended 30 June 2018 be received.

8 Prudential Inquiry into the Commonwealth Bank of Australia

Matthew Bullivant, Manager Legal Services spoke to the Report. He noted the following important points:

1. The level of oversight that the Audit, and Risk Committees had of the Commonwealth Bank (CBA) wasn't appropriate.
2. Managers were not engaged with these committees and frequently didn't attend
3. There were delays in the implementation of actions and recommendations of the committee.

The members of the ARIC noted that there are lessons to be learnt from the CBA:

- That a natural tension between management and ARIC is a good thing
- Need to analyse our customer complaints
- That cultures of consensus are problematic
- Deadlines shouldn't get pushed out, Managers should be accountable
- We need to be better than on paper

Clr Fowler noted that the General Manager should prioritise resourcing the audit function.

Alan Stoneham noted that we needed to distinguish between the non-negotiable and improvement initiatives. When recommendations are received that timelines should be determined according to risk.

Craig Butler noted that the whole organisational culture should take on board risk, and that

this could be achieved by inviting Executive Managers to come along to ARIC meetings.

Bruce Turner suggested that this could also be achieved by his attendance at an Executive Manager's Meeting.

Internal Audit will invite the relevant business owners to the ARIC meetings where the relevant audit is reported. Further Internal Audit will invite the business owner to ARIC meetings where there has been more than one extension of time for implementing recommendations.

RECOMMENDATION

ARIC 19 RESOLVED on the motion of Elizabeth Gavey seconded by Clr Ross Fowler that that the information contained in the report on Prudential Inquiry into the Commonwealth Bank of Australia be received.

7 Progress in Implementing Audit Recommendations

Stuart Benzie spoke to the report.

The Committee asked that the Audit Recommendations include internal as well as external audit recommendations within the next report, so that the ARIC does not lose oversight.

Further, the Committee asked for more context as to why audit recommendations are not accepted. E.g. Road maintenance includes 5 recommendations that have not been accepted.

Stuart Benzie will take the question on Road Maintenance on notice and report back to the ARIC at the next meeting.

Stuart Benzie then introduced Brian Steffen, Executive Manager and John Gordon, City Presentations Manager.

Brian Steffen and John Gordon spoke to the outstanding audit recommendation on Plant and Fleet Maintenance.

John Gordon noted that they now had sufficient data from GPS, to understand when plant equipment was being underutilised. As a result of this, they have disposed of 6 items of Plant equipment, resulting in efficiencies.

Further, City Assets have set up 2 committees:

- Strategic Plant Equipment – this committee looks at the strategic value and level of use of plant equipment. Further looks at hiring vs buying equipment. Hiring or leasing can drive productivity, ensure better technology and reduce maintenance.
- Plant Replacement Committee – this committee is consultative and ensures that plant equipment is fit for purpose, by engaging with relevant staff.

Noted that Plant Equipment has been retained longer than is appropriate, and there are developing inefficiencies in this due to maintenance. City Assets is working towards a sustainable plant replacement model.

Darren Greentree noted that if there is to be a shift from ownership to lease/hiring then Finance need to be involved in discussions, as there may be depreciation ramifications to these decisions.

RECOMMENDATION

ARIC 20 RESOLVED on the motion of Darren Greentree seconded by Clr Kath Presdee that the information contained in the report on Progress in Implementing Audit Recommendations be received.

9 Update on Payroll Audit Actions and Improvements

Linda Ross, Manager of Workforce spoke to the report. It was noted that 69% of audit recommendations from the Payroll audit had been actioned.

Linda noted that the issue of back-up support for the System Administrator is an ongoing issue. Some headway has been made, by the codification of procedures around the role, but the nominated alternate has now left the organisation.

Further, better reporting capabilities have provided better oversight, through the Empower system.

John Barbeler queried whether the outstanding recommendations scheduled for August 2018, were on track, noting that he looked forward to a further report at the September ARIC meeting on their progress.

Elizabeth Gavey asked whether there are any work arounds to deal with the lack of segregation for termination processes. Linda advised that as a work around, managers are being required to sign off on terminations.

The Innovation team will take a further look at segregation of duties.

RECOMMENDATION

ARIC 21 RESOLVED on the motion of Darren Greentree seconded by Cllr Councillor Ross Fowler that the information contained in the report on Update on Payroll Audit Actions and Improvements be received.

12 WHSMS Internal Audit Report

Anthony Robinson spoke to the Report, noting that the Audit had been outsourced to Centium Pty Ltd. The Auditor was on site for 3 days, conducted site visits at the Civic Centre, Depot and Children Services.

The audit noted that the 'safety culture' at the organisation was apparent, and that there was a commitment to Workplace Health & Safety through consultation.

The report included one high priority finding that the current evacuation diagrams are not compliant with Australian Standards.

Matt Bullivant commented that Penrith City Council has no risk appetite for unsafe work practices.

Bruce Turner questioned what the escalation point was from the WHS Committee. He was advised that the Manager of Workforce now attends Committee meetings and now reports to directly to the General Manager on issues of urgency or importance.

Elizabeth Gavey noted that policies are not regularly reviewed, which is of concern. The Manager of Workforce noted that an external Consultant had been engaged to review policies. There was discussion around the processes for reviewing all policies within the organisation on a regular basis.

The Committee requested Workforce now provide Workplace Health and Safety figures and present it to the Audit and Risk Committee, bi-annually.

RECOMMENDATION

ARIC 22 RESOLVED on the motion of John Barbeler seconded by Darren Greentree that the information contained in the report on WHSMS Internal Audit Report be received.

1 Governance Update

Adam Beggs spoke to the Governance Report.

Elizabeth Gavey requested that a summary of recommendations from ICAC reports be included within the next Governance report.

It was noted that the Complaints Management table provides raw data on the number of complaints. It was requested that complaints be separated into categories to show the general nature of complaints, and where the raw numbers require further explanation, that this information be provided. Further, if there is a trend or theme around the types of complaints received, this should be provided.

There was discussion regarding the process for maintaining financial delegations. Bruce Turner noted that to ensure the integrity of delegations, it is preferable that delegations be linked to the financial delegations system.

It was noted that the Business Ethics Statement, should include more information around privacy. Further, that we should consider how we communicate this policy to both internal and external stakeholders.

Adam Beggs commented that the presentation of the Code of Conduct matters in the report had been amended as requested by the Committee. The Committee further expressed that they would like the length of code of conduct resolution times to be included.

Bruce Turner also noted that the previously mentioned Charter of Rights, would assist in procedural fairness to do with Code of Conduct matters.

Adam Beggs noted the Governance department were currently working on a report formalising the Governance Framework as requested by the Committee.

RECOMMENDATION

ARIC 23 RESOLVED on the motion of Elizabeth Gavey seconded by Darren Greentree that the information contained in the Governance Update report be received.

6 Internal Audit Status Report

Anthony Robinson spoke to the report. He noted the following:

- The Procurement Audit was in draft form at this stage
- Contract Management – audit planning memo have been sent out for this audit.
- A methodology for carrying out follow up audits is being looked at and yet to be decided, but a follow up audit has been included in the 2018/19 Internal Audit plan
- There had been a change in scope for the Regulatory Enforcement and Compliance audit, and development compliance had now been excluded. Anthony noted that development compliance had recently received attention from the Innovative Performance Team during a kaisen blitz.

It was noted that if development compliance was now excluded, that the ARIC would lose visibility over this area. It was requested that the Innovation Team provide a report to the next ARIC meeting, on the recommendations and actions arising from this blitz.

It was noted that the last external review of Council's Internal Auditing practices occurred in 2012. The Committee requested a copy of this report for the next ARIC meeting.

Auditing against the compliance framework was noted in the Audit 2018/19 plan, however this has been deferred, in order to develop this framework. The Committee asked for an update at the December 2018 ARIC meeting around this framework. Bruce Turner offered to send a copy of a Compliance Framework Whitepaper, that he had authored to assist Council

in its development.

John Barbeler asked whether the results of the Corruption and Fraud Survey 2017 had been finalised. Karen Taylor, from the Audit Office, noted that it had not been finalised. John Barbeler requested that the response from Penrith City Council to this survey should be provided to the Committee.

RECOMMENDATION

ARIC 24 RESOLVED on the motion of Elizabeth Gavey seconded by Ross Fowler

That:

1. The information contained in the report on Internal Audit Status Report be received.
2. The ARIC endorses the 2018/19 Internal Audit Annual Plan to commence on 1 July 2018.

4 Internal Audit of ICT Continuity & Recovery and Cyber Security

Anthony Robinson introduced the report, with Jane Howard, ICT Operations Manager. Anthony noted that these were really 2 separate audits.

The report noted two areas of interest:

- There was no documented disaster recovery plan in place
- There was no testing of disaster recovery procedures, such as the timeframes for recovery of data from the cloud.

Jane Howard noted that the disaster recovery plan was expected by the end of September.

Anthony Robinson noted that there is a business continuity internal audit scheduled for early 2019, which may allow verification. It was noted that risk was mitigated by majority of information being located in the Cloud. Minimal physical servers are located on site, and will shortly be moved to the Lower Ground floor of the Civic Centre.

Darren Greentree noted that there can be risks, such as flooding, that can occur in basements, and that there should be a risk assessment prior to the move.

Elizabeth Gavey expressed concern regarding the limited scope of the audit. Noted that there should be some form of social engineering testing conducted, e.g. to see how staff react to phishing emails. Further consideration should be given to vulnerability testing.

RECOMMENDATION

ARIC 25 RESOLVED on the motion of Elizabeth Gavey seconded by John Barbeler that the information contained in the report on Internal Audit of ICT Continuity & Recovery and Cyber Security be received.

Darren Greentree left the meeting at 11.18am.

10 Continuous Risk Improvement Program (CRIP) Report

RECOMMENDATION

ARIC 26 RESOLVED on the motion of Elizabeth Gavey seconded by John Barbeler that that the information contained in the report on Continuous Risk Improvement Program (CRIP) Report be received, and that a progress report is provided at the next meeting.

3 Coronial Inquest: death of Kenneth Eberle

Matthew Bullivant, Legal Services Manager spoke to the report on the Coronial Inquest.

Matthew Bullivant noted that in light of comments received during the Coronial Inquest, that Penrith City Council will make some changes to Council's Tree Management Plan.

Bruce Turner requested that a further report on the outcomes of the Coronial Inquest be reported to the September ARIC meeting, and that information related to residential risk be included within this report.

RECOMMENDATION

ARIC 27 RESOLVED on the motion of Elizabeth Gavey seconded by John Barbeler that the information contained in the report on Coronial Inquest: death of Kenneth Eberle be received.

11 Report on ARIC Workshop

Bruce Turner deferred discussion on the ARIC Workshop.

RECOMMENDATION

ARIC 28 RESOLVED on the motion of Elizabeth Gavey seconded by John Barbeler

That:

1. The information contained in the report on Report on ARIC Workshop be deferred.
2. An action list is to be circulated to the ARIC, after consultation with other members of the Committee.
3. Following finalisation of the actions by the ARIC, they are incorporated into the ARIC forward plan (where relevant), and progress is periodically reported to the ARIC (or upon the ARIC's request).

GENERAL BUSINESS

Communication between Council and ARIC

Bruce Turner noted that there should be a stronger connection between the Council and the ARIC, and that 5 key take outs should be expressed to the Council from the meeting. He noted the following:

1. ARIC will maintain focus on actions arising and audit recommendations being completed in a timely manner. The ARIC endorsed the Internal Audit plan for 2018/19.
2. ARIC encouraged enhanced themes-based reporting of complaints.
3. ARIC reflected on the importance of the Business Ethics Statement, noting that it complements internal codes of ethics / conduct to shape ethical dealings of third parties with Council. ARIC stressed that effective roll-out is imperative.
4. *Control Framework* –
 - a. *Payroll* - Action is in train to strengthen payroll function controls after weaknesses highlighted by an internal audit report in early 2018. ARIC will continue to monitor.

- b. *Cyber Security* - The ARIC received the results of a high-level audit of cyber security and noted that Council has in place reasonable layers of controls with some improvement needed (which the ARIC will monitor).
- 5. Coronial inquest – ARIC noted the Coroner’s recommendations from an inquest will influence Council’s tree management policy and planning. ARIC noted there may be merit in considering inherent risks to people and property that might be directed to Council from ‘refusal’ decisions that officers make on residential tree removal (a potential ‘sleeper’ risk)

Bruce Turner noted that it may be appropriate to attend a Council Meeting in the future, which received endorsement from two Councillors.

New General Manager

Alan Stoneham noted that he and the new General Manager will be in attendance at the next ARIC meeting.

There being no further business the Chairperson declared the meeting closed the time being 11.25am.