Audit, Risk and Improvement Committee Annual Report | 2018

FOREWORD

♦ The Audit, Risk and Improvement Committee (ARIC) has been established to promote good governance at Penrith City Council which, in turn, contributes to the people of Penrith receiving services they need in an effective and efficient manner, delivered with honesty and integrity.

♦ The ARIC Charter requires the Chair to provide a *Committee Annual Report* to Council. This is the first such report under the refreshed ARIC and **covers the year ended 30 September 2018**.

♦ Three of the four current ARIC independent members were appointed during the year in a significant 'changing of the guard' to further strengthen Council's resolve for contemporary leading-edge governance, risk, compliance, and audit arrangements.

KEY ARIC ACHIEVEMENTS IN 2018

♦ Positioned ARIC to deliver fresh, constructive, collegiate, strategically-focused oversight.

♦ Expanded strategic thinking through proactive consideration of 'lessons learned' from a prudential inquiry into CBA (organisational and cultural shortcomings) and from an ICAC investigation into Botany Bay Council ($6.5 million misappropriation and governance failures).

♦ Accelerated knowledge transfer through a strategic ARIC workshop in April 2018.

♦ Developed an action plan to guide improvement opportunities for areas oversighted by ARIC.

♦ Identified other governance, risk, compliance and audit improvements (see 'key action points').

♦ Confirmed ARIC is operating highly effectively (ARIC performance self-assessment by the Chair).

FIVE KEY FACTORS FROM ENVIRONMENTAL SCAN IN 2018

1. Local growth projections are of such magnitude that traditional approaches to managing development and providing community services and infrastructure will need to evolve to embrace partnerships, innovation, collaboration, and disruption.

2. Supporting this agile environment, traditional approaches to control and managing risk will need to be re-thought to maintain probity and risk within Council's appetite.

3. Diversification of financial sources is required to support this agile environment.

4. Asset management and renewal will require a shift from an operational to a strategic approach.

5. Human and ICT resources will both require significant transformation to deliver new capabilities, improved productivity, and reduced costs.

KEY ACTION POINTS FOR YEAR TO SEPTEMBER 2019

ARIC instigated the following improvements which are currently being addressed by management:

♦ Articulation of the overall *governance framework* as the basis for a gap analysis.

♦ Development of a profile of Council's successful *initiatives for Aboriginal people* and a plan of future leadership opportunities to improve their health, wellbeing, education and employment.

♦ Implementation of *themes-based complaints reporting* to highlight lead indicators.

♦ Development of a consolidated formalised *probity policy* to ensure clarity of fraud safeguards.

♦ Development of a *charter of rights* to aid persons who are the subject of allegations.

♦ Inclusion of *risk commentary in decision-making reports* for clarity of associated risks.

♦ Development of *enhanced risk reporting* so it satisfies needs of both management and ARIC.

♦ *Streamlined audit reporting* approach to ARIC so meeting is focused at a strategic level.

MEMBER ATTENDANCE AT ARIC MEETINGS YEAR TO 30/9/18

Last meeting of prior ARIC held 5/9/17. Formal meetings held 13/12/17; 7/3/18; 6/6/18, 5/9/18. Independent members also attended orientation session 11/12/17 and strategic workshop 10/4/18.

Name	Role	Commenced	Expiry of Term	Formal Meetings	
				Eligible	Attended
Independent Members					
Bruce Turner AM	Chair	November 2017	November 2021	4	4
John Barbeler	Member	November 2017	November 2021	4	4
Elizabeth Gavey	Member	November 2017	November 2021	4	4
Darren Greentree	Member	** November 2017	November 2021	4	4
		*** Reappointed. Initially from June 2012.*			
Councillor Members					
John Thain	Mayor	14 December 2016	For Mayoral term	4	1
Ross Fowler OAM	Councillor	19 September 2007	September 2020	4	4
Kath Presdee	Councillor	*14 December 2016	September 2020	4	4
		** Initially from 3/12/2008 to 15/8/2012.*			

ARIC STRATEGIC FOCUS AREAS

The ARIC identified eight strategic focus areas related to its mandate at its strategic workshop in April 2018:

1. Revenue diversification.
2. Productivity savings and validation.
3. Contract management framework and project risks.
4. Probity, fraud and cyber risks.
5. ICT (Information, Communications, Technology) risks.
6. Compliance framework (incl awareness, education).
7. Initiatives and methodologies focused on the future.
8. Governance and oversight of controlled entities.

AREAS OF PRIMARY ARIC OVERSIGHT

ENTERPRISE RISK MANAGEMENT

♦ Updates made to the Enterprise Risk Management Framework and Policy (including risk appetite statement) in 2018 will enhance risk management thinking, principles and practices, and, ultimately, reduce the risks and uncertainties around achievement of business objectives.

♦ ARIC will commence monitoring risk treatment plans, now required for residual risks outside risk tolerance levels.

EXTERNAL AUDIT

♦ Responsibility for auditing Council's financial statements was assumed by the Auditor General of NSW (through the Audit Office – AO) in 2017 following legislative changes.

♦ The audit consumed 943 audit hours in 2017 (transition year) and has been shaved to 790 hours in 2018.

♦ No major financial control issues were reported.

INTERNAL AUDIT

♦ Internal audit is operating well and has delivered valuable insights through its independent efforts this year. The complementary Internal Audit Annual Report covers main insights, assurance, status of recommendations, and KPIs.

♦ The overall satisfaction rating of the internal audit activity in 2018 was at a very satisfactory level of 4 out of 5 (based on a survey of the previous ARIC received in March 2018).

♦ An enhanced Internal Audit Charter was approved in March 2018, expanding KPIs and replacing the prior 2013 version.

♦ ARIC will maintain focus on actions arising and audit recommendations being completed in a timely manner.

GENERAL CORPORATE GOVERNANCE

♦ ARIC recognises the commitment to good governance and financial stewardship, and the sound foundations in place. ARIC meetings were extended to 3 hours in 2018 (from 2 hours) to accommodate the ARIC's expanded mandate.

WESTERN SYDNEY CITY DEAL (WSCD)

Penrith City Council became a partner to the WSCD in early-2018 with the Australian and NSW Governments, and local councils covering Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Liverpool and Wollondilly. The WSCD aims to unlock opportunities in education, business, and employment in the region to aid the regional economy.

Over the next half-year the ARIC will explore with management the overarching governance arrangements and specific rights, responsibilities and risks for Penrith City Council. The aim will be to determine the reasonableness of local oversight, accountability and reporting arrangements.

OTHER IMPORTANT AREAS

FRAUD & CORRUPTION PREVENTION

♦ The ICAC raised 2 recommendations for Penrith City Council in its June 2017 report on the Regional Illegal Dumping (RID) Squad. Both have been implemented.

♦ 2017 Employee Survey provides a useful cultural baseline. Notably, *47% felt comfortable raising misconduct, or any behaviours they felt are inappropriate*; and 49% *are held to the same standard of ethical behaviour across Council*.

♦ ARIC reflected on the importance of the Business Ethics Statement and effective roll-out, noting it complements internal codes of ethics to shape ethical 3rd party dealings.

INTERNAL CONTROL FRAMEWORK

♦ ARIC noted that the Coroner's recommendations from an inquest into an accident at Emu Plains will influence Council's tree management policy and planning.

♦ ARIC reflected that there may be merit in considering inherent risks to people and property that could potentially be directed to Council from 'refusal' decisions that officers make on residential tree removal.

CONTINUOUS IMPROVEMENT

♦ The Innovative Performance Team reports on progress at each ARIC meeting. For the year to September 2018 the team had identified 201 improvements, with 118 (59%) implemented to date.

♦ ARIC has suggested implementation of dashboard reporting, enhancements to KPIs, and further reporting on return on investment (net benefit value).