
**NARROMINE SHIRE COUNCIL
ORDINARY MEETING BUSINESS PAPER – 12 AUGUST 2020
REPORTS OF COMMITTEES**

1. REPORT OF INTERNAL AUDIT COMMITTEE

The report to and minutes of the Internal Audit Committee Meeting held on 6 July 2020 at the Narromine Shire Council Chambers are attached (**See Attachment No. 1**).

It is noted that the tenure for the independent external members expires 31 August 2020. Council's Internal Audit Committee Charter states that the independent external members will be appointed for the term of Council, after which they will be eligible for extension or re-appointment following a review of their performance. Given the postponement of the Council elections to September 2021, it is recommended that Council extend the tenure of the independent external members to 31 August 2021.

RECOMMENDATION

1. That the report of the Internal Audit Committee and the recommendations from the minutes of 6 July 2020 be adopted.
2. Further that the tenure of the Independent External Members be extended to 31 August 2021.

2. REPORT OF THE NARROMINE FLOODPLAIN MANAGEMENT COMMITTEE

The report to and minutes of the Narromine Floodplain Management Committee meeting held on 1 July 2020 at the Narromine Shire Council Chambers are attached (**See Attachment No. 2**).

It is noted that whilst Alignment Options B1 and B2 were presented to the committee, further analysis is required to determine the individual and cumulative impacts to existing development and infrastructure, prior to a preferred plan of management being developed.

RECOMMENDATION

That the report of the Narromine Floodplain Management Committee and the recommendations from the minutes of 1 July 2020 be adopted with the exception of the recommendation that the risk management plan be updated to include concept alignment B1.

**MINUTES OF THE NARROMINE SHIRE COUNCIL INTERNAL AUDIT COMMITTEE
MEETING HELD IN COUNCIL CHAMBERS ON MONDAY 6 JULY 2020**

PRESENT: Ron Gillard (Chair) – Independent External Member, Neil Maltby– Independent External Member, Cr James Craft NSC, Jane Redden - General Manager NSC, John Sevil - Director Finance & Corporate Strategy NSC, Gabriel Faponle – Crowe and Carolyne Marchant (Minute Taker)

Via Teleconference – Alex Hardy - Prosperity Advisor Group and Unaib Jeffrey - NSW Audit Office

1. WELCOME

The Chair welcomed everyone to the Narromine Shire Council Internal Audit Committee meeting and declared the meeting open at 12.03pm.

2. APOLOGIES

Marion Truscott - Director Governance NSC

3. DISCLOSURES OF INTEREST

Nil

4. CONFIRMATION OF PREVIOUS MINUTES 9 MARCH 2020

RECOMMENDED Cr Craft/Neil Maltby that the Minutes of the Narromine Shire Council Internal Audit Committee Meeting held 9 March 2020 be adopted as a true and correct record of the meeting.

Unaib Jeffrey - NSW Audit Office joined the meeting at 12.04pm.

5. INTERNAL AUDIT COMMITTEE ANNUAL REPORT (CHAIR)

RECOMMENDED Ron Gillard/Cr Craft that the report as presented to this committee is endorsed and be presented to the August 2020 Council Meeting.

6. CONSIDERATION OF COMMUNITY ENGAGEMENT REVIEW REPORT

RECOMMENDED Cr Craft/Neil Maltby that the report be received and noted, and that the outstanding items be added to the Internal Audit Committee Action Tracking List.

7. CONSIDERATION OF INFRASTRUCTURE MANAGEMENT REVIEW REPORT

RECOMMENDED Cr Craft/Neil Maltby that the report be received and noted, and that the recommendations from report be added to the Internal Audit Committee Action Tracking List, with a separate report to be presented by Management to the next meeting detailing the sub-task timeline that leads to achieving the ultimate goal of Recommendation 1.

8. INTERNAL AUDIT PERFORMANCE REPORT

RECOMMENDED Cr Craft/Neil Maltby that the information be noted and the Performance Report be progressed and presented to the November Committee Meeting.

Gabriel Faponle left the meeting at 12.49pm.

**MINUTES OF THE NARROMINE SHIRE COUNCIL INTERNAL AUDIT COMMITTEE
MEETING HELD IN COUNCIL CHAMBERS ON MONDAY 6 JULY 2020**

9. INTERIM AUDIT OBSERVATIONS/MANAGEMENT LETTER

RECOMMENDED Neil Maltby/Cr Craft that the Interim Audit Management Letter be received and noted, and that the outstanding Issues be added to the Internal Audit Committee Action Tracking List, with a separate report to be presented by Management to the next meeting detailing the proposed resolution to Issue 2.

10. COVID-19 UPDATE

RECOMMENDED Neil Maltby/Cr Craft that the verbal report from the General Manager be noted, and that the committee commend Narromine Shire Council for its actions and responses to COVID-19.

Alex Hardy and Unaib Jeffrey left the meeting at 1.35pm.

11. NARROMINE AQUATIC CENTRES BUSINESS CASE

RECOMMENDED Cr Craft/Neil Maltby that the report be received and noted, and thank the General Manager for providing the 'improvement' type information to the committee.

12. INDEPENDENT EXTERNAL MEMBERS TENURE

It is noted that the General Manager will present a report to Council regarding the potential extension of tenure for the independent external members, and will in turn contact the independent external members individually following resolution.

13. OFFICE OF LOCAL GOVERNMENT CIRCULARS

RECOMMENDED Cr Craft/Neil Maltby that the report be received and noted.

14. ACTION TRACKING LIST

RECOMMENDED Neil Maltby/Cr Craft that:

- the Action Tracking List be noted.
- the committee received the Director Finance and Corporate Strategy's verbal update in respect of items 2 and 6, and have amended their status as 'complete'.
- the Director Finance and Corporate Strategy prepare a confidential report on the results of the penetration testing to the Cybersecurity Plan, including proposed resolutions, and present it to the next committee meeting.

15. ANY OTHER BUSINESS

It is noted that the Chair had been contacted by the External Auditors regarding the Fraud Inquiry Questionnaire. As agreed previously by the committee, this request is not considered appropriate by the Internal Audit Committee.

16. DATE FOR NEXT MEETING

It is noted that the committee members will be required to recommend to Council (via email circular resolution) the referral of the draft 2019/20 accounts to audit. It is expected that this will occur in late August / early September.

The next Internal Audit Committee meeting will be held on Monday 9 November 2020.

**MINUTES OF THE NARROMINE SHIRE COUNCIL INTERNAL AUDIT COMMITTEE
MEETING HELD IN COUNCIL CHAMBERS ON MONDAY 6 JULY 2020**

17. CONCLUSION OF MEETING

The Chair thanked all members for attending.

There being no further business the meeting concluded at 2.09pm.

The Minutes (pages 1 to 3) were confirmed at a meeting held on the day of _____ 2020, and are a full and accurate record of proceedings of the meeting held on 6 July 2020.

CHAIR



26 June 2020

Narromine Shire Council Internal Audit Report Community Engagement Review

Contents

- 1. Executive Summary 3
- 2. Scope and Approach 4
 - 2.1 Audit Objective..... 4
 - 2.3 Scope and Approach 4
 - 2.4 Review Approach..... 5
 - 2.5 Recommendations and Assigned Priority Ratings..... 6
- 3. Observations and Recommendations 7
- Appendix 1 – Personnel Contacted 10
- Appendix 2 – Priority Key Rating..... 11

1. Executive Summary

Narromine Shire Council (the Council) has a good posture with respect to how it is positioned to engage with its community. Our review identified that all reasonable expectations on how key processes for engaging with the Community were well articulated in key policy documents. The Council has in place a comprehensive Community Engagement Strategy document which provides "...*overarching vision and strategy*..." in relation to community engagement within the local government landscape under its jurisdiction. It provides an underlying baseline for a consistent approach through which Council staff are expected to adopt when representing the Council as they engage with the Community.

The most significant and evidently core strength of the Council's community engagement process was its effective demonstrated set of expectations designed to increase the level of public participation. This was summed up by the Community Engagement Strategy in the table below:

Increasing Level of Public Participation

| Inform | Consult | Involve | Collaborate | Empower |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| Public participation goal | Public participation goal | Public participation goal | Public participation goal | Public participation goal |
| To provide the public with balanced and objective information to assist them in understanding the problems, alternatives, opportunities and/or solutions. | To obtain public feedback on analysis, alternatives and/or decisions. | To work directly with the public throughout the process to ensure public concerns and aspirations are consistently understood and considered. | To partner with the public in each aspect of the decision, including the development of alternatives and the identification of the preferred solution. | To place final decision-making in the hands of the public. |

A key essential attribute to effectively engaging the community is an appropriately designed communication strategy. The Council has adequately demonstrated this attribute through a dedicated policy document; the Communication Strategy.

- Target Audience
- Communications tools for the target audience
- Frequency of such communication depending on the audience

All staff interviewed during the review have demonstrated a level of fully understanding the expectations of the Council with regards to community engagement expectations. Staff also appeared to understand the demographics of their community including some key community expectations from various groups.

The review, however identified three low risk observations detailed in section 3 of this report and whose recommendations are detailed below.

Our key recommendation for further improvement

- We recommend that the council collate all perception-based feedback information obtained from the community and maintain it in a central repository. Information should then be accessible for use in enhancing processes and practices which meet specified community expectations.
- We recommend that the Council edit the Community Engagement Strategy in a manner that fully reflects its currency to date. Once edited, the document should be recast on the Council's website.
- We recommend that the Council provide a facility, on the Council website for the community to engage by way of feedback. The Council may also consider reviewing its website to identify and remedy any obsolete web content or expired links.

2. Scope and Approach

2.1 Audit Objective

In accordance with the 2019-20 revised Internal Audit Plan of Narromine Shire Council ('the Council'), Crowe was engaged to undertake a Community Engagement Review in line with the objectives and scope detailed below.

The objectives of this review were to:

- Assess the extent of the Council's progress toward the achievement of its Community Engagement Strategy when assessed against best practice principles of community engagement as promoted by the International Association for Public Participation (IAP2). The specific objectives include:
 1. **Inform:** To provide the public with balanced and objective information to assist them in understanding the problems, alternatives, opportunities and/or solutions;
 2. **Consult:** To obtain public feedback on analysis, alternatives and/or solutions;
 3. **Involve:** To work directly with the public throughout the process to ensure public concern and aspirations are consistently understood and considered;
 4. **Collaborate:** To partner with the public in each aspect of the decision, including the development of alternatives and the identification of the preferred solution; and
 5. **Empower:** To place final decision-making in the hands of the public.
- Consider Council's approach to the implementation of key actions arising from Community Satisfaction Survey conducted, if any;
- Identify if Council's events are determined and executed in a manner which is strategic and maximises community engagement; and
- Consider Council's approach to the integration of community members'/customers' key information (e.g. customers, rate payers, development applicant, pet registrations and library card holders, etc);

2.3 Scope and Approach

The scope of this internal audit included:

- Identifying and assess the adequacy and effectiveness of the Council's Community Engagement Strategy, its underlying plans, systems, processes for community engagement against best practice;
- Assessing the Council's effectiveness in complying with both its Community Engagement Strategies and also its demonstration of best practice community engagement practices;
- On a sample basis, were required identifying, stratifying and obtaining direct feedback on community engagement from relevant community stakeholder group;
- Assessing the effectiveness of recording, reporting and follow-ups of outstanding and pending issues impacting community stakeholder activities and objectives;
- Assessing the community focused process, risks and key internal controls performed by Council, including management of community feedback through the:
 - Analysis and reporting of community feedback;
 - The input of community feedback into relevant systems and spreadsheets;
 - Storage and security of community feedback; and
 - Controls in place to ensure the integrity of community feedback.
- The utilisation of community feedback to inform Council's decision-making activities including strategic and operational alignment;

- Processes in place to respond to community feedback including review controls over responses provided by Council; and
- System(s) utilised in Community Engagement processes including user access and permissions.
- The event determination and management practices in place across a sample of Council's key areas and functions;
- Key processes, controls and a sample of IT systems in place to capture and report community members/customers (e.g. a sample customer, ratepayers, development applicants, pet registrations and library card holders, etc) key/personal information; and
- Testing will be performed over transactions which have occurred in the current financial year.

2.4 Review Approach

We obtained an understanding of the internal policies, procedures, systems and requirements pertaining to Council's Community Engagement processes, including the performance of walkthroughs and testing over the key controls identified. Specifically, we:

- Gained an understanding of the policies and procedures regarding Council's Community Engagement process via conducting structured interviews with key personnel, reference to existing policies and procedures and other documentation;
- Considered interviewing of key community stakeholders to obtain feedback on the Community Engagement processes over a period of time;
- Through structured interviews with management we obtained an understanding of the events determination and management processes.
- With regards to any other key Council's Community Engagement processes and activities which are not specifically covered in the above procedures we;
 - Conducted of walkthroughs to gain an understanding of Council's Community Engagement processes and activities;
 - Assessed the effectiveness of mechanisms utilised by Council to understand community expectations and feedback (i.e. through surveys, mail etc); and
 - Considered the roles performed by various Council Departments and considered role clarity and interaction between the Departments to check for inefficiencies or duplication of effort.
- With regards to community members we performed sample-based testing over key controls identified to;
 - Test the key controls in the Community Engagement processes, to check they are operating effectively;
 - Identify if community personal information is accurate and consistent across a sample of Council's core IT systems; and
 - Identify if consistent naming conventions and information are employed across a sample of Council's core IT systems.

2.5 Recommendations and Assigned Priority Ratings

Recommendations were provided for low risk findings and these are documented in section 3 below.

We have assigned and agreed with management, priority rating for the recommendation in accordance with priority rating criteria set out in **Appendix 1**.

3. Observations and Recommendations

Please refer to Appendix 3 for a definition of the priority ratings and the appropriate action required.

| Finding Reference | Observation | Priority Rating | | | Recommendation | Management Response | Due Date for Completion |
|-------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| | | H | M | L | | | |
| Customer survey results could be utilised to make further improvements in community engagement | | | | | | | |
| F1 | <p>Processes around how satisfaction survey results are maintained and utilised by the council for its ongoing improvements can be done better.</p> <p>In 2018, the council carried out a customer satisfaction survey in which the following was noted; <i>“encouraging older generation in the community to use online survey”</i>. At the time of this review, there was no evidence that data on survey outcomes was being harnessed and processed for identified improvements.</p> <p>In addition to the above, there was no evidence that customer/community satisfaction data was held in a central data repository for ongoing community perception intelligence.</p> | | | L | <p>We recommend that the council collate all perception-based feedback information obtained from the community and maintain it in a central repository. Information should then be accessible for use in enhancing processes and practices which meet specified community expectations.</p> <p>Where such data is not maintained, there is a risk that future perception surveys or complaints may raise concerns which may have been raised in the past leading to reputational consequences on the council.</p> | <p>Customer/community satisfaction data to be retained in CM9, container referenced Customer Service – Service Delivery – Community Engagement Data</p> <p>Working papers can be saved in a shared network drive.</p> | 06.07.20 |

| Finding Reference | Observation | Priority Rating | | | Recommendation | Management Response | Due Date for Completion |
|----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------|
| | | H | M | L | | | |
| <i>The current Community Engagement Strategy needs to be edited to fully reflect its currency</i> | | | | | | | |
| F2 | The Council's Community Engagement Strategy was adopted by the Council on 9 November 2016 under resolution number 2016/333. However, since 2016, the footer part of the document is still showing it to be in draft. | | | L | We recommend that the Council edit the Community Engagement Strategy in a manner that fully reflects its currency to date. Once edited, the document should be recast on the Council's website. | Community Engagement Strategy footer to be edited and republished on Council's website. | 06.07.20 |

| Finding Reference | Observation | Priority Rating | | | Recommendation | Management Response | Due Date for Completion |
|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|
| | | H | M | L | | | |
| The Council website does not provide for access to reporting and alerting council of any feedback | | | | | | | |
| F3 | <p>Our review identified that the Council does not provide an opportunity, via its community facing web pages, for the community members to provide any feedback they may have about anything that is relevant to the service provided by the Council.</p> <p>Further assessments identified that the Council's website is still hosting sections with expired survey monkey links where the community is required to have their say in relation to pools for instance.</p> | | | L | <p>We recommend that the Council provide a facility, on the Council website for the community to engage by way of feedback. Feedback may include any suggestions of future improvements or identification of areas of concern the community may have.</p> <p>The Council may also consider reviewing its website to identify and remedy any obsolete web content or expired links.</p> | <p>Feedback mechanism to be expanded on the website.</p> <p>Website to be reviewed to identify and remove any obsolete content and expired links.</p> | <p>31.07.20</p> <p>06.07.20</p> |

Appendix 1 – Personnel Contacted

We would like to thank the staff who participated in our interview process and following personnel for their key role in this audit.

| Contact Name | Position |
|--------------|-------------------------------------------|
| ██████████ | General Manager |
| ██████████ | Executive Manager Corporate Governance |
| ██████████ | Director Community & Economic Development |
| ██████████ | Director Finance and Corporate Strategy |
| ██████████ | Communication Officer |

Appendix 2 – Priority Key Rating

The following criteria are used to assign priority ratings to each internal audit recommendations. In relation to this audit, there were no recommendations requiring priority key ratings. Areas of further improvements to already existing processes were made and are detailed in section 3 above.

| Priority Rating Key | |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| H (High) | Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives. Urgent attention from senior management required. |
| M (Medium) | Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to achieve its objectives. Immediate management attention required. |
| L (Low) | Issue represents a control weakness, which could cause or is causing less than a moderate adverse impact on the ability of the process to achieve its objectives. Requires management attention in the short to medium term. |

Disclaimer

Findex (Aust) Pty Ltd, trading as Crowe is a member of Crowe International, a Swiss verein. Each member firm of Crowe is a separate and independent legal entity. Liability limited by a scheme approved under Professional Standards Legislation. Liability limited other than for the acts or omissions of financial services licensees.

All opinions, conclusions, forecasts or recommendations are reasonably held at the time of compilation but are subject to change without notice. Crowe assumes no obligation to update this material after it has been issued.

The title 'Partner' conveys that the person is a senior member within their respective division and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe external audit division. All other professional services offered by Findex Group Limited are conducted by a privately-owned organisation and/or its subsidiaries.

Findex (Aust) Pty Ltd (trading as Crowe) ABN 84 006 466 351



26 June 2020

Narromine Shire Council

Internal Audit Report

Infrastructure Management

Review

Contents

- 1. Executive Summary 3
- 2. Scope and Approach 4
 - 2.1 Audit Objective and scope 4
 - 2.2 Review Approach..... 4
 - 2.3 Recommendations and Assigned Priority Ratings..... 4
- 3. Observations and Recommendations 5
- Appendix 1 – Personnel Contacted 8
- Appendix 2 – Priority Key Rating..... 9

1. Executive Summary

Crowe, in line with the agreed scope of works, has completed a review of the adequacy and effectiveness of processes, practices and controls in relation to Infrastructure Management on behalf of Narromine Shire Council (Council). In performing the review, we based our observations detailed in this report on our assessment of documentary evidence, data, and detailed interviews of selected staff.

Infrastructure forms one of the cornerstones upon which the Council leverages to provide a variety of services to its community. Spanning over a wide area of over 5000 square kilometres, the Council serves a community of nearly 7000 residents using its asset pool valued just over \$300 million. These assets are the Council's infrastructure and include, but not limited to footpaths, libraries, water facilities, parks, sewer, sporting and recreation facilities.

During our review, we identified that the Council is equipped with motivated members of staff who understand their roles and responsibility in relation to Infrastructure Management. Staff interviewed also understand existing limitations inherent with regional councils of the same size as Narromine Shire Council. This understanding is very critical in efficiently allocating resources needed to ensure infrastructure is adequately maintained to provide above optimal benefits to the Community.

It is vital for this review to recognise that the Infrastructure team is currently at the start of a process to utilise data and other relevant information to formulate a whole of life (WOL) strategy for the management of asset and infrastructure within the Council. The WOL provides a full view of the total cost of assets and infrastructure over their anticipated life and gives management a clearer and evidence based visualisation of asset and infrastructure needs now and in the foreseeable future.

Notwithstanding the above, our audit identified areas which the Council may need to focus on to enhance the current asset and infrastructure management. We have identified these areas and developed recommendations listed below under "Our key recommendations" section and detailed in section 3 of this report.

It is important to indicate that in its efforts to implement the recommendations in this report, the Council should consider its size and its position in the regional areas where human resources and relevant skill sets may not be as available in similar size councils' situation closer to metropolitan areas.

Our key recommendation

- We recommend that the Council embark on a process for identifying infrastructure that requires renewal and develop an asset renewal program for water infrastructure and any other relevant infrastructure groups.
- We recommend that the Council consider prioritising the use of data to manage the life, condition and full potential of existing infrastructure. Data based decisions should also be used to provide compelling justifications for future planned Infrastructure maintenance and investment decisions
- We recommend that the Council develop a comprehensive Asset Management Framework which detail a structured overview of how the Council manages its asset lifecycles. The framework should be designed in a manner that enables the Council to align with major asset management best practice recommendations

2. Scope and Approach

2.1 Audit Objective and scope

The objectives of the Infrastructure Review were to gain assurance that:

- infrastructure and building maintenance decisions are integrated into the entity's strategic and organisation planning and linked to budget allocation;
- there is appropriate budget allocation for maintenance;
- accountability is established for infrastructure condition and performance;
- an effective control structure is in place for infrastructure, building maintenance and Essential Safety Measures (ESM) regulations; and maintenance strategies include ecologically sustainable development and environmental impact considerations.

2.2 Review Approach

The review was conducted primarily by applying discussion, observation and review techniques concentrating on:

- understanding through discussion and observation the management processes in place;
- documenting and evaluating the methods associated with control and management; and
- assessing the possibility of risk in the maintenance of infrastructure.

2.3 Recommendations and Assigned Priority Ratings

Recommendations were provided for low risk findings and these are documented in section 3 below.

We have assigned and agreed with management, priority rating for the recommendation in accordance with priority rating criteria set out in **Appendix 1**.

3. Observations and Recommendations

Please refer to Appendix 3 for a definition of the priority ratings and the appropriate action required.

| Finding Reference | Observation | Priority Rating | | | Recommendation | Management Response | Due Date for Completion |
|--------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| | | H | M | L | | | |
| The Current Council Water Infrastructure is very old and require significant capital renewal programs | | | | | | | |
| F1 | <p>The Council's water resource is supported by very old infrastructure which was established sometime in the 1950s. Infrastructure is maintained on a reactive basis where required.</p> <p>The original reticulation systems in both Narramine and Trangie were constructed in the 1950s, further augmented in 1965-6 and again in the late 1980s and 90s. Council identified issues with the Narramine water reticulation in the early 1990s and embarked on an annual mains and services replacement program which has continued ever since. A similar program is now underway in relation to the Trangie reticulation.</p> | H | | | <p>We recommend that the Council embark on a process for identifying infrastructure that requires renewal and develop an asset renewal program for water infrastructure and any other relevant infrastructure groups.</p> <p>Where the council does not identify and develop an infrastructure renewal program, it is possible that:</p> <ul style="list-style-type: none"> Maintenance costs for old infrastructure will continue to rise in the long run Old infrastructure may cause health hazards emanating from ageing and deterioration infrastructure | <p>Council is in the process of reviewing and updating its Integrated Water Cycle Management Strategy which includes a 30-year Total Asset Management Plan, Long Term Financial Plan and Drought Management Plan.</p> | December 2023 |

| Finding Reference | Observation | Priority Rating | | | Recommendation | Management Response | Due Date for Completion |
|---------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-------------------------|
| | | H | M | L | | | |
| The Council has not utilised its data to manage its infrastructure | | | | | | | |
| F2 | <p>We identified that the Council has not fully utilised its infrastructure and asset data to manage the effectiveness with which infrastructure is optimised to provide the most potential for the community. We acknowledge that the Council has asset and infrastructure data in its information systems. Such data relates to data describing the properties of infrastructure and assets owned by the Council including but not limited to:</p> <ul style="list-style-type: none"> • Geospatial data identifying specific locations of assets • Value and costs of assets • Asset and Infrastructure maintenance history • Asset valuation details as needed | | | L | <p>We recommend that the council consider prioritising the use of data to manage the life, condition and full potential of existing infrastructure. Data based decisions should also be used to provide compelling justifications for future planned Infrastructure maintenance and investment decisions.</p> <p>Managing through data will also enhance the Council in supporting long term sustainability</p> | <p>Agreed</p> <p>Fit for the Future no longer relevant, consider amending to long term sustainability.</p> | March 2022 |

| Finding Reference | Observation | Priority Rating | | | Recommendation | Management Response | Due Date for Completion |
|-------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|---|---|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|
| | | H | M | L | | | |
| The Council requires an overarching asset management framework which details structured strategic asset management practices | | | | | | | |
| F3 | We identified that the Council has not yet developed an overarching asset management framework document which details a structured approach under which asset management is undertaken. | | | L | We recommend that the Council develop a comprehensive Asset Management Framework which detail a structured overview of how the Council manages its asset lifecycles. The framework should be designed in a manner that enables the Council to align with major asset management best practice recommendations. For example, the Asset Management Framework should demonstrate alignment with the requirements of the National Assessment Framework for Local Government Asset Management and Financial Planning | Council is utilising the International Infrastructure Management Manual. Asset Management documentation (Policy, Framework and Strategy) will be reviewed as part of the IP&R process after the new Council is elected. | March 2022 |

Appendix 1 – Personnel Contacted

We would like to thank the staff who participated in our interview process and following personnel for their key role in this audit.

| Contact Name | Position |
|--------------|----------------------------------------------------|
| ██████████ | General Manager |
| ██████████ | Executive Manager Corporate Governance |
| ██████████ | Director Infrastructure and Engineering Services - |
| ██████████ | Director Finance and Corporate Strategy |
| ██████████ | Engineering Services |

Appendix 2 – Priority Key Rating

The following criteria are used to assign priority ratings to each internal audit recommendations. In relation to this audit, there were no recommendations requiring priority key ratings. Areas of further improvements to already existing processes were made and are detailed in section 3 above.

| Priority Rating Key | |
|---------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| H (High) | Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives. Urgent attention from senior management required. |
| M (Medium) | Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to achieve its objectives. Immediate management attention required. |
| L (Low) | Issue represents a control weakness, which could cause or is causing less than a moderate adverse impact on the ability of the process to achieve its objectives. Requires management attention in the short to medium term. |

Disclaimer

Findex (Aust) Pty Ltd, trading as Crowe is a member of Crowe International, a Swiss verein. Each member firm of Crowe is a separate and independent legal entity. Liability limited by a scheme approved under Professional Standards Legislation. Liability limited other than for the acts or omissions of financial services licensees.

All opinions, conclusions, forecasts or recommendations are reasonably held at the time of compilation but are subject to change without notice. Crowe assumes no obligation to update this material after it has been issued.

The title 'Partner' conveys that the person is a senior member within their respective division and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe external audit division. All other professional services offered by Findex Group Limited are conducted by a privately-owned organisation and/or its subsidiaries.

Findex (Aust) Pty Ltd (trading as Crowe) ABN 84 006 466 351



Ms Jane Redden
General Manager
Narromine Shire Council
PO Box 115
NARROMINE NSW 2821

Contact: Unaib Jeffrey
Phone no: 02 9275 7450
Our ref: D2013887/1769

26 June 2020

Dear Ms Redden,

**Management Letter on the Interim Phase of the Audit
for the Year Ending 30 June 2020**

The interim phase of our audit for the year ending 30 June 2020 is complete. This letter outlines:

- matters of governance interest we identified during the current audit
- unresolved matters identified during previous audits
- matters we are required to communicate under Australian Auditing Standards.

We planned and carried out our audit to obtain reasonable assurance the financial statements are free from material misstatement. Because our audit is not designed to identify all matters that may be of governance interest to you, there may be other matters that did not come to our attention.

The audit is ongoing and we will inform you if we identify any new matters of governance interest as they arise.

For each matter in this letter, we have included our observations, risk assessment and recommendations. The risk assessment is based on our understanding of your business. Management should make its own assessment of the risks to the organisation.

We have kept management informed of the issues included in this letter as they have arisen. A formal draft of this letter was provided on 26 June 2020. This letter includes management's formal responses, the person responsible for addressing the matter and the date by which this should be actioned.

The Auditor-General may include items listed in this letter in the Report to Parliament. We will send you a draft of this report and ask for your comments before it is tabled in Parliament.

Attachment No 1

If you would like to discuss any of the matters raised in this letter, please contact me on 9275 7450 or Alex Hardy (Associate Director, Prosperity Audit Services) on 8262 8700.

Yours sincerely



Unaib Jeffrey
Audit Leader, Financial Audit Services

cc: Cllr Craig Davies, Mayor
Mr Neil Maltby, Chair of the Audit, Risk and Improvement Committee

Interim Management Letter

for the Year Ending 30 June 2020

Narromine Shire Council







We have rated the risk of each issue as ‘Extreme’, ‘High’, ‘Moderate’ or ‘Low’ based on the likelihood of the risk occurring and the consequences if the risk does occur.

The risk assessment matrix used is broadly consistent with the risk management framework in [TPP12-03 ‘Risk Management Toolkit for the NSW Public Sector’](#).

This framework may be used as better practice for councils.

| | | CONSEQUENCE | | | |
|------------|----------------|-------------|--------|------|-----------|
| | | Low | Medium | High | Very high |
| LIKELIHOOD | Almost certain | M | M | H | E |
| | Likely | L | M | H | H |
| | Possible | L | M | M | H |
| | Rare | L | L | M | M |

The risk level is a combination of the consequences and likelihood. The position within the matrix corresponds to the risk levels below.

| RISK LEVELS | MATRIX REFERENCE |
|-----------------------------------------------------------------------------------------------|------------------|
|  Extreme: | E |
|  High: | H |
|  Moderate: | M |
|  Low: | L |

For each issue identified, we have used the consequence and likelihood tables from [TPP12-03](#) to guide our assessment.



Consequence levels and descriptors

| Consequence level | Consequence level description |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Very high | <ul style="list-style-type: none"> Affects the ability of your entire entity to achieve its objectives and may require third party intervention; Arises from a fundamental systemic failure of governance practices and/or internal controls across the entity; or May result in an inability for the auditor to issue an audit opinion or issue an unqualified audit opinion. |
| High | <ul style="list-style-type: none"> Affects the ability of your entire entity to achieve its objectives and requires significant coordinated management effort at the executive level; Arises from a widespread failure of governance practices and/or internal controls affecting most parts of the entity; or May result in an inability for the auditor to issue an unqualified audit opinion. |
| Medium | <ul style="list-style-type: none"> Affects the ability of a single business unit in your entity to achieve its objectives but requires management effort from areas outside the business unit; or Arises from ineffective governance practices and/or internal controls affecting several parts of the entity. |
| Low | <ul style="list-style-type: none"> Affects the ability of a single business unit in your entity to achieve its objectives and can be managed within normal management practices; or Arises from isolated ineffective governance practices and/or internal controls affecting a small part of the entity. |

Likelihood levels and descriptors

| Likelihood level | Frequency | Probability |
|------------------|--------------------------------------------------------------------------------------|---------------------------------------------|
| Almost certain | The event is expected to occur in most circumstances, and frequently during the year | More than 99 per cent |
| Likely | The event will probably occur once during the year | More than 20 per cent and up to 99 per cent |
| Possible | The event might occur at some time in the next five years | More than 1 per cent and up to 20 per cent |
| Rare | The event could occur in exceptional circumstances | Less than 1 per cent |


Summary of issues

| Issue | Detail | Likelihood | Consequence | Risk assessment |
|-------|------------------------------------------------------------------------------------------------------------------|------------|-------------|----------------------------------------------------------------------------------------------|
| 1 | No position paper prepared for revaluation of roads, bridges, footpaths and storm water drainage | Possible | Medium |  Moderate |
| 2 | Legislative Compliance Register and Framework | Possible | Low |  Low |

Appendix

[Review of Matters Raised in Prior Years](#)

Issue 1: No position paper prepared for revaluation of roads, bridges, footpaths and storm water drainage

| Likelihood | Consequence | Systemic issue | Category | Risk assessment |
|------------|-------------|----------------|-----------|----------------------------------------------------------------------------------------------|
| Possible | Medium | Yes | Reporting |  Moderate |

Observation

In our 2020 Annual Engagement Plan, we requested management to put in place governance process around the revaluation exercise. This included:

- documented terms of agreement and scope
- devising timetable and committing resources
- holding regular meetings between asset and finance teams
- reconciling key asset management systems before and after the revaluation.

Whilst management has made substantial progress in the valuation process for 2019–20 with the independent valuation report being received and provided to Audit, the Council's position paper for the revaluation of Roads, Bridges, Footpaths and Storm Water Drainage asset classes has not been completed and provided to audit for review.

Implications

The valuation of complex physical assets is inherently complex and susceptible to material misstatement. The failure to complete revaluation exercises in accordance with agreed timeframes places undue pressure on both audit and Council staff and may also lead to an inefficient audit resulting in additional time being incurred to complete required audit processes. There is also the increased risk that critical deadlines (including the statutory reporting deadline) may not be met.

Recommendation

We recommend that Council finalise the position paper for valuation of Roads, Footpaths, Bridges and Storm Water asset classes on a priority basis to ensure that it is ready for the audit review prior 15 July 2020.

Management response

Agree

Will have it done by due date. It is worth noting that the complete revaluation and Valuers report has been passed to the auditor for review.

Person responsible:

Date (to be) actioned:

| | |
|---------------------------------------------------------------------------------------------------------------------------|--------------|
|  Director Finance & Corporate Strategy | 15 July 2020 |
|---------------------------------------------------------------------------------------------------------------------------|--------------|

Issue 2: Legislative Compliance Register and Framework

| Likelihood | Consequence | Systemic issue | Category | Risk assessment |
|------------|-------------|----------------|-----------|-----------------|
| Likely | Low | Yes | Strategic | Low |

Observation

Whilst we acknowledge management is aware of Council's responsibilities to comply with key legislative requirements, we identified opportunities to strengthen Council's legislative compliance framework. These include:

- developing a legislative compliance register to capture and report on Council's compliance with key legislation. This is important to assist the Council to appropriately monitor and manage its legal obligations
- drafting a formal legal compliance policy to capture:
 - the risk associated with non-compliance with the laws, regulations and directives
 - responsibilities for identifying, reporting and recording instances of non-compliance
 - how compliance is to be monitored
 - the role of different committees in ensuring compliance
 - the controls/processes in place to manage compliance
 - accountable officer(s) for ensuring compliance with key legislation
 - a register detailing any instances when laws and/or regulations are breached
 - a reporting structure to notify those charged with governance of instances of non-compliance
- remedial action(s) to be taken when non-compliance is identified.

Implications

A compliance framework is important as it:

- promotes a culture of compliance
- fosters continuous improvement in compliance processes
- ensures obligations are met and helps the organisation demonstrate its corporate and social responsibilities.

The absence of a legislative compliance policy and register reduces accountability for complying with key legislative requirements. It also increases the Council's risk of breaching key legislative requirements.

Non-compliance with laws and regulations may attract penalties and/or result in significant reputation damage.

Recommendation

Management should develop a legislative compliance register and policy to strengthen the Council's legislative framework.

Management response

Agree

Will implement by due date

Person responsible:

Date (to be) actioned:

Director Governance






31 December 2020

Appendix

Review of matters raised in prior year management letters

The issues in this appendix were raised in previous management letters. For each of these issues, we have determined:

- how management has addressed the issue in the current year
- what management still needs to do to address unresolved issues.

| Prior issues raised | Risk assessment | Assessment of action taken | Recommendation |
|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2018-2019 Interim Management Letter | | | |
| Quarterly review of water billing process (May 2019) |  Low | Resolved. Council started performing quarterly reviews. First review performed for Q1 in October 2019. | Matter has been addressed satisfactorily. |
| Timeliness of the asset capitalisation process (May 2019) |  Low | Resolved. First meeting held in October 2019. | Matter has been addressed satisfactorily. |
| 2017–18 Final Management Letter | | | |
| Lack of assessment performed for the new accounting standards (June 2018) |  Low | Resolved pending audit verification. Council has performed detailed assessment of the impact of the new standards on the financial statements, including accounting position papers and disclosing quantified information on the financial impact in their 2018–19 financial statements. | Audit is reviewing and resolving queries with management with a view to resolving in July 2020. |
| Fair value assessment not formally documented (June 2018) |  Moderate | Resolved pending audit verification. Management assessed the fair values of asset classes not subject to a comprehensive valuation this year through comparison with appropriate indices and other market information. | Audit has received a position paper for the asset classes not subject to a comprehensive valuation. Audit has not received a position paper for the comprehensive valuation of roads, bridges, footpaths and drainage assets. Matter raised at Issue # 1. |
| Findings arising from the data collection for the Auditor-General's Report to Parliament for Local Government 2017–18 (June 2018) |  Moderate | Resolved. Management has implemented the actions related to contract management, periodic review of user access and IT Supplier Risk Assessments. | Matter has been addressed satisfactorily. |

| Prior issues raised | Risk assessment | Assessment of action taken | Recommendation |
|----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| 2018–19 Interim Management Letter | | | |
| Information Technology – No formal IT Security Policy (May 2018) |  Moderate | Resolved. Council implemented a cyber security policy in 2019/20. | Matter has been addressed satisfactorily. |
| Information Technology – Password configuration management (May 2018) |  Moderate | Resolved. Council has completed the implementation of password guidelines. | Matter has been addressed satisfactorily. |
| Electronic Funds Transfer (EFT): Inappropriate accessibility after creation (May 2018) |  Moderate | Council has mitigating controls in place. ABA files are reviewed by two appropriate management before being approved. | Matter has been addressed satisfactorily. |

OFFICE OF LOCAL GOVERNMENT CIRCULARS

| Circular No. | Date | Title | Related Issue | Council Action |
|--------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| 20-05 | 03.03.2020 | Release of councillor superannuation discussion paper | Invitation for feedback | Forwarded to Executive Leadership Team Forwarded to Councillors |
| 20-06 | 10.03.2020 | Novel Coronavirus (COVID-19) Development Updates | Information update on COVID-19 and Council to Implement as necessary | Forwarded to General Manager Forwarded to WHS & Risk Coordinator |
| 20-07 | 13.03.2020 | Department of Premier and Cabinet circulars on employment arrangements and international and domestic travel in relation to novel coronavirus (COVID-19) | Information update on COVID-19 and Council to Implement as necessary | Forwarded to General Manager Forwarded to WHS & Risk Coordinator |
| 20-08 | 19.03.2020 | Release of the Guide to Webcasting Council and Committee Meetings | Information and implementation of webcasting of Council meetings | Forwarded to Executive Leadership Team Forwarded to Councillors |
| 20-09 | 25.03.2020 | Compliance with social distancing requirements to limit the spread of the COVID-19 virus at council and committee meetings | Information update on COVID-19 and Council to Implement as necessary | Forwarded to Executive Leadership Team Forwarded to Councillors |
| 20-10 | 25.03.2020 | Postponement of the September 2020 Local Government Elections | Information update regarding postponement of LG elections | Forwarded to Executive Leadership Team Forwarded to Councillors |
| 20-11 | 30.03.2020 | Final Code of Accounting Practice and Financial Reporting (update 28) including Joint Organisations Supplement | The Code must be used by councils and JOs to prepare their annual financial statements in accordance with the Local Government Act 1993 and the Local Government (General) Regulation 2005 | Forwarded to Director Finance and Corporate Strategy |
| 20-12 | 17.04.2020 | Modification of statutory requirements in response to the COVID-19 pandemic | Information update on COVID-19 and Council to Implement as necessary | Forwarded to Executive Leadership Team |

| Circular No. | Date | Title | Related Issue | Council Action |
|--------------|------------|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| 20-13 | 22.04.2020 | Managing fraud and corruption risks during the COVID-19 pandemic | Information update and Council to Implement as necessary | Forwarded to Executive Leadership Team Forwarded to Manager Information Technology |
| 20-14 | 27.04.2020 | Updated guidance on attendance by councillors and others at council and committee meetings during the COVID-19 pandemic | Information update on COVID-19 and Council to Implement as necessary | Forwarded to Executive Leadership Team Forwarded to Councillors |
| 20-15 | 01.05.2020 | New Integrated Planning and Reporting requirements for NSW councils | Advice to councils in relation to their Integrated Planning and Reporting (IP&R) requirements until the next local government elections. | Forwarded to Executive Leadership Team |
| 20-16 | 13.05.2020 | COVID-19 Economic Stimulus Package | The Office of Local Government (OLG) has released three new resources that will assist councils to apply for the Council Job Retention Allowance Subsidy. | Forwarded to General Manager |
| 20-17 | 19.05.2020 | Relaxation of some restrictions on the attendance by councillors and others at council and committee meetings during the COVID-19 pandemic | Information update on COVID-19 and Council to Implement as necessary | Forwarded to General Manager Forwarded to Councillors Forwarded to Director Governance |
| 20-18 | 19.05.2020 | Important changes for all councils made by the COVID-19 Legislative Amendment (Emergency Measures- Miscellaneous) Act No.2 | Changes to support councils and ratepayers during the COVID-19 pandemic | Forwarded to Executive Leadership Team |
| 20-19 | 26.05.2020 | Information about Ratings 2020-21 | Councils should incorporate these determinations into their 2020-21 rating structures and Operational Plan Statement of Revenue Policies. | Forwarded to Executive Leadership Team Forwarded to Manager Accounting Services Forwarded to Manager of Revenue & Customer Relations |

| Circular No. | Date | Title | Related Issue | Council Action |
|--------------|------------|---------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| 20-20 | 03.06.2020 | Clarification for issuing and collecting 2020-21 single and first quarter rates instalments | Councils cannot enforce the collection of a single instalment or the first quarter rates instalments until after 30 September 2020. | Forwarded to Executive Leadership Team |
| 20-21 | 16.06.2020 | Further relaxation of restrictions on attendance at council and committee meetings during the COVID-19 pandemic | Councillors and council staff may attend council and committee meetings in person. However, councils must allow councillors and staff to attend and participate in meetings by audio visual links where it is reasonably practicable to do so. | Forwarded to General Manager Forwarded to Director Governance Forwarded to Councillors |
| 20-22 | 19.06.2020 | Supporting local businesses to comply with COVID-19 restrictions | COVID Safety Check app | Forwarded to General Manager, Director Governance, Manager Health Building and Environmental Services |
| 20-23 | 22.06.2020 | Determination of the Local Government Remuneration Tribunal | No increase | Forwarded to Councillors and Executive Leadership Team |
| 20-24 | 26.06.2020 | Extension of increased tendering exemption threshold for contracts for bushfire response and recovery to 31 December 2020 | The temporary higher \$500,000 tendering exemption threshold prescribed under the Local Government (General) Regulation 2005 (the Regulation) for contracts for the purpose of bushfire- related response and recovery work has been extended for a further six months to 31 December 2020. | Forwarded to General Manager Forwarded to Director Governance |
| 20-25 | 29.06.2020 | The date of the next ordinary local government elections is 4 September 2021 | Current councillors and popularly elected mayors will continue to hold their civic offices until council elections are held on 4 September 2021. | Forwarded to General Manager Forwarded to Executive Leadership Team Forwarded to Councillors |

Narromine Shire Council

Internal Audit Committee – Action List As At 3 July 2020

| Action No | Action | Responsible Officer | Due Date | Status | Comment |
|-----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|----------|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------|
| IT Governance Review | | | | | |
| 5 | Portable devices to have encryption installed and activated. Review of external file transfers and what requires encryption to be completed and considered by Manex. | Director Finance and Corporate Strategy | 01.12.19 | Completed | All laptops now encrypted. The move to One Drive will satisfy second point for internal. The use of DataBox satisfies for external. |
| 6 | Penetration testing to be added to the Cybersecurity Plan | Director Finance and Corporate Strategy | 31.03.20 | In progress | |
| 11 | Scheduled testing of DR sites to be conducted with either full or partial failover of services and equipment | Manager Information Technology | 01.12.19 | Completed | Completed during Council shutdown Dec-Jan. |
| 12 | NSC to be included in the testing agreement and regular backup testing performed as per agreement. Restoration of files to be performed across multiple sections to ensure hardware is not failing. | Manager Information Technology | 01.12.19 | Completed | |
| Audit Office Interim Management Letter | | | | | |
| 2 | Quarterly reviews of assets for capitalisation will be held, documentation filed | Director Finance and Corporate Strategy | 01.07.19 | Q1 Meeting with Engineering Department | 14/10/19 |



Narromine Shire Council
Internal Audit Committee
Annual Report to Council 2020

Report prepared by the Chair of
Narromine Shire Council Internal Audit Committee

Contents

| | |
|------------------------------------------------------------------------------------|---|
| 1. Introduction | 3 |
| 2. Internal Audit Committee Report | 4 |
| 2.1 Charter | 4 |
| 2.2 Committee Membership | 4 |
| 2.3 Committee Meeting Attendance | 5 |
| 2.4 Role of the Committee | 5 |
| 2.5 Key Activities Undertaken During the Reporting Period..... | 6 |
| 2.6 Enterprise Risk | 6 |
| 2.7 Internal Audit | 7 |
| Internal Audit Plan | 7 |
| A New Risk Management and Internal Audit Framework for Local Councils in NSW | 7 |
| Independent Assessment of the Internal Audit Function..... | 8 |
| 2.8 External Audit..... | 8 |
| 3. Committee Priorities for 2020/21..... | 9 |

1. Introduction

The Charter of the Internal Audit Committee (the Committee) adopted by Council requires the Committee to report to Council on its activities, at least annually.

This report covers the initial extended period from 10 December 2018 – 30 June 2020. Prior to its presentation to Council the report was reviewed and endorsed by the members of the Committee.

Narromine Shire Council's Internal Audit 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 Internal Audit 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 was established by Council resolution on 14 February 2018, with the Charter adopted at the same time. No reviews or amendments to the original Charter by the Committee have occurred since that date, however the Committee are required to review it at least once every four years.

Membership of the Committee comprises one (1) Councillor and two (2) independent members. Independent members of the Committee are selected following an expression of interest process.

2. Internal Audit Committee Report

2.1 Charter

At its first meeting in December 2018, the Committee was made aware of changes introduced by the Local Government Amendment (Governance and Planning) Act 2016 requiring Councils to appoint an Audit, Risk and Improvement Committee. The amendment specified (amongst other things) a range of aspects of Council's operations that the Committee must keep under review.

As the new Act provisions have yet to be proclaimed, the Committee will defer any immediate revision of the Charter until such time that the provisions have been proclaimed. However, the Committee will work with Council to progressively ensure the new requirements are adequately considered as part of the continuous improvement process, and in anticipation of them being proclaimed. Council adopted the original Internal Audit Committee Charter in February 2018.

2.2 Committee Membership

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

Councillor member:

- Cr James Craft
Council appointed delegate since 14 February 2018

Independent members:

- Neil Maltby
Member since 10 October 2018; Chair from 10 December 2018 to 9 March 2020
- Ron Gillard
Member since 10 October 2018; Chair from 9 March 2020 to present

Background of Independent Members

Neil Maltby 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 or Chair on two regional Council Audit and Risk Committees. Neil is a Fellow of Chartered Accountants Australia and New Zealand.

Ron Gillard has had an extensive 32 year commercial sector career in Australia and with significant business ventures in the US and Europe, and brings to the committee wide ranging specialist accounting and business management skills. He currently operates his own consulting business and has done so for the last 16 years. In addition, Ron has held executive roles on a number of community organisations and has been an independent member or Chair on Audit and Risk Committees of several regional Councils for the past five years. Ron holds a Master's Degree in Commerce.

2.3 Committee Meeting Attendance

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

Table 1 Summary of Committee Meetings and Member Attendance

| Meeting Date | Cr James Craft | Neil Maltby | Ron Gillard |
|----------------------------------------------------------------------------------------------|-------------------|-------------|-------------|
| 10/12/2018 | ✓ | ✓ | ✓ |
| 25/3/2019 | ✓ | ✓ | ✓ |
| 3/6/2019 | ✓ | ✓ | ✓ |
| 31/8 - 4/9/2019 <i>(Financial Statements review and referral via circular resolution)</i> | ✓ | ✓ | ✓ |
| 11/11/2019 | ✓ | ✓ | ✓ |
| 9/3/2020 | ✓ | ✓ | ✓ |

2.4 Role of the Committee

The role of the Committee is to oversight risk, compliance, external accountability and internal control in Council. The Committee does this by:

- examining and commenting on Council's enterprise risk management framework and practices, including review of internal control mechanisms;
- reviewing financial reporting, including reviewing the work of the Council's external auditors;
- monitoring legislative compliance, including compliance with policies and guidelines issued by the Office of Local Government;
- reviewing the work of Council's internal audit function, including achievement of Council's Strategic Internal Plan and advising management on the annual program of internal audits, as well as overseeing progress with the implementation of the recommendations of completed audit reports;
- monitoring progress of internal process improvement projects, including the implementation of internal and external audit recommendations; and,
- reporting to Council on significant governance, risk, and internal control issues.

The Committee has instituted key management compliance declarations with Council management and these are monitored and reported on progressively throughout the year at Committee meetings, as well as via the scope and deliverables from internal and external audits.

2.5 Key Activities Undertaken During the Reporting Period

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

- ✓ Adopted the Strategic Internal Audit Plan 2018/19 – 2020/21.
- ✓ Reviewed the internal audit work of the Strategic Planning and Risk Assessment Review, including Council's Strategic Risk Register developed as part of the task.
- ✓ Reviewed and monitored management's responses to the internal audit recommendations from projects listed below at 2.7, as well as those to external audit recommendations resulting from the 2017/18 and 2018/19 financial year audits, which strengthen Council's internal control environment.
- ✓ Reviewed Council's legislative compliance, and added 'non-compliance reporting' as a standing agenda item.
- ✓ Endorsed an updated/amended policies for Fraud Control and Corporate Credit cards, and reviewed Council's Fraud Risk Assessment and proposed actions.
- ✓ LGNSW Audit Risk and Improvement Committee Training Workshop attended by one (1) Committee member and two (2) Council staff.
- ✓ Reporting of OLG Circulars to the Committee, including how Council are addressing the matters covered, are reviewed at each Committee meeting as a standing agenda item.
- ✓ Endorsed a revised Procurement Policy following the incorporation of recommendations resulting from the Contract Management review.
- ✓ Reassessment of the Internal Audit Plan for 2019/20.
- ✓ Out of session 'in principle consent' given to Council for the draft 18/19 financial statements to be referred for audit following their review by the Committee.
- ✓ Oversight of the delivery of an unqualified opinion on Council's 2018/19 financial statements by the external auditors.
- ✓ Reviewed Council's draft Annual Report for 2018/19 to ensure the financial information included in the Annual Report was consistent with the signed financial statements.
- ✓ Major projects presentation from the Director of Infrastructure and Engineering Services provided the Committee with a level of assurance of how staff are managing risk within their area of responsibility to facilitate an understanding of risk management at the grass roots.
- ✓ Discussed and reviewed the OLG's draft paper titled "A New Risk Management and Internal Audit Framework for local councils in NSW" to determine the prospective impact to Council and enable for feedback to be provided to the OLG by both Council and the independent members.

2.6 Enterprise Risk

As noted above, Council presented a Strategic Risk Register to the Committee in December 2018 which was developed through an assessment review with the internal auditor. This process included determining Council's risk appetite via a workshop with Council staff, as well as the identification of strategic risk areas and their respective risk ratings.

As part of the process, the Council's risk maturity was initially self-assessed as being at Level 2 (Repeatable) in the maturity scale from lowest Level 1 (Reactive) to Level 5 (Optimise). It is expected from the work undertaken and completed to date, that Council's risk maturity level has already partially improved since the initial self-assessment and will continue to improve in the coming years.

It is envisaged that the Committee will revisit a formal review of the Strategic Risk Register and Council's risk management framework in the coming year.

Further to the above, it is duly noted that the Committee is routinely informed about any issues or matters that have arisen between meetings that could affect the Council's risk profile.

2.7 Internal Audit

Internal Audit Plan

The Committee adopted the Strategic Internal Audit Plan 2018/19 – 2020/21 at its inaugural meeting on 10th December 2018.

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

- Strategic Risk Assessment
- Contract Management
- IT Governance
- Climate Change

Completed planned internal audit projects to be presented to the July 2020 Committee meeting are:

- Community Engagement
- Infrastructure Management

The Committee is satisfied with the quality of 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 Audit, Risk and Improvement Committee ("ARIC") in place. This requirement was likely to take effect from March 2021, however COVID-19 appears to have deferred it 12 months. 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 outlines the legislative framework which is expected to provide guidance on how Council should establish and operate an ARIC and complementing internal audit and risk management functions.

There will be nine core requirements that Councils will be required to comply with when establishing their ARIC, risk management framework and internal audit function. These requirements are based on international standards and the experience of Australian and NSW Government public sector agencies who have already implemented risk management frameworks and internal audit functions.

There are also components of the proposed framework that are designed to reflect the unique needs and structure of NSW Councils. The framework will apply to Councils, County Councils and Joint Organisations.

The original implementation timeline for the new guidelines allows for a transitional period which ends in March 2021. Originally, Councils would have had until this date to establish an ARIC. Then, by December 2022, Councils would have been required to have developed a risk management framework, including appointment of a Risk Management Coordinator (Core Requirement 2). In addition, an internal audit function should be established, including employment of a Chief Audit Executive and personnel (Core Requirements 3-4 or 9 for shared arrangements). It is also expected that Councils will fully implement and operate a risk management framework and an internal audit function which are both compliant with the new requirements by 2024. Full compliance with section 428A of the Act was originally expected by 2026 with Councils that have established ARIC's, mature risk management and internal audit functions, being encouraged to comply sooner.

Council and the Independent Members made submissions to the Office of Local Government on this draft paper at the end of 2019 and are awaiting feedback and/or resolutions.

Independent Assessment of the Internal Audit Function

As part of the internal framework for the professional practice of internal auditing (IPPF) it is expected that an independent assessment of the internal audit function be performed to ensure that the practice of internal auditing is in accordance with professional standards.

Given Council's relative infancy in this area, an effective review is unlikely to occur until such time that we have at least completed the initial three year Strategic Internal Audit Plan (which is currently in operation through to mid-2021).

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 undertook the external audit of Council's 2018/19 financial statements.

The Committee met with the NSW Audit Office and their Agent during the period and oversaw the delivery of the Council's Client Service Plan – Year Ending 30 June 2019, and also reviewed the audit plan in March 2020 for the current financial year.

The 2018/19 audit produced an unqualified audit opinion, with no significant areas of concern noted. The Committee reported to Council that they are not aware of any issues that would preclude Council from adopting the audited Annual Financial Statements for 2018/2019.

The Committee notes that management made significant progress implementing recommendations raised by the external auditor during their audit.

3. Committee Priorities for 2020/21

The key priorities for the Committee in 2020/21 will be:

- Closely monitor progression of the Strategic Internal Audit Plan to ensure the planned audits are completed in a timely manner.
- Review an updated Strategic Risk Register and review the documentation supporting the operation of Council's risk management framework.
- Initiate a review of current Council policies for completeness and to ensure existing policies are routinely reviewed and updated.
- Review Council's business continuity plan, including its IT disaster recovery plan.
- Review the performance to date of the internal audit function via the inaugural annual Internal Audit Performance Report.
- Review the Committees responsibilities outlined in the Charter on a cyclical basis.
- Monitor the result/resolution from the OLG's draft paper titled "A New Risk Management and Internal Audit Framework for local councils in NSW" from 2019, and assist Council in preparing for and implementing the (yet to be determined) requirements.

Ron Gillard

Chair – Narromine Shire Council Internal Audit Committee

6th July 2020

**MINUTES OF THE NARROMINE FLOODPLAIN MANAGEMENT COMMITTEE MEETING HELD AT
COUNCIL CHAMBERS ON TUESDAY 1 JULY 2020**

PRESENT: Narromine Shire Council: Cr Colin Hamilton (Chair), Mrs Jane Redden (General Manager), Andre Pretorius (Director Infrastructure & Engineering Services), Community/Business Representatives: Mayor Cr Craig Davies, Cr Rob McCutcheon, Mr Ivan Rivas Acosta (Office of Environment and Heritage), Mr George Mack, Mr Mike Bennett, Mr Robert Heywood, and Sarah Masonwells (Minute Taker).

VIA TELECONFERENCE: Scott Button (Lyll & Associates) and Craig Ronan (NSW State Emergency Service).

IN ATTENDANCE: Marion Truscott (Director Governance, NSC) and Phil Johnston (Director Community & Economic Development, NSC).

1. WELCOME

The Chair welcomed those present and declared the meeting open at 2.07pm.

2. APOLOGIES

RECOMMENDED Cr Davies/ Mike Bennett that the apologies of Brigid Rice (NSW State Emergency Service Area Commander), Mr Jack Cooper; Mr Robert Handsaker and Mr Bob Treseder be accepted.

3. MINUTES OF THE PREVIOUS MEETING

RECOMMENDED Cr McCutcheon/Cr Davies that the minutes of the previous meeting held on 3 February 2020 be accepted as a true and accurate record of the meeting with the following amendment, that Mr Mike Bennett be noted as present at the meeting.

4. BUSINESS ARISING FROM THE MINUTES

- Mike Bennet would like the comment on page two regarding the 2010 flood level made by Robert Handasaker clarified, as he believes this may have been minuted incorrectly.

5. REPORT TO FLOODPLAIN MANAGEMENT COMMITTEE NAD DISCUSSION

Scott Button began his presentation (**attachment 2**) noting the following points in particular:

- This will form part of the final report
- There is potential for water to come onto Narromine via Backwater Cowal
- Water NSW has sent information regarding water datum today
- The committee chose Option A then Option HA
- Looking at new Option B2 down which goes down Warren Road
- B1 levee heads out behind Sixth Avenue
- In Levee Option B, when Hydraulic modelling software was updated, more water discharges to the West
- The impacts of Option HA, are similar to Option B
- Council may look at updating the culverts at Webb Siding and putting a viaduct in. Most of the water would come through the eastern portion with a 0.5km long viaduct with 900m high openings. However, Scott does not believe upgrading the culverts would change the amount of water that would come into town
- Damages bill for residential estimated around \$43m during a major flood. Methodology to attribute for the floods economic assessment, so this number will grow

**MINUTES OF THE NARROMINE FLOODPLAIN MANAGEMENT COMMITTEE MEETING HELD AT
COUNCIL CHAMBERS ON TUESDAY 1 JULY 2020**

5. REPORT TO FLOODPLAIN MANAGEMENT COMMITTEE NAD DISCUSSION CONT.

Cr Davies: With the assumption of a 1% AEP flood event, is it viable to update the culverts at Webbs Siding?

Scott Button: It is a complex issue, compared to present day, if the culverts were updated, water would get through and push more water down Backwater Cowal. The railway is affecting the natural flow, as it reduces the flow that goes down Backwater Cowal. Council needs to decide where the liability lies, and justify the money that would be spent to upgrade the culverts. Option B1 follows the natural flow path with the addition of the upgraded culverts

Cr McCutcheon: We need to have the community accept some of the effects. If we upgraded the culverts, there would be a lot more community acceptance for having a levee, as more water would go out Backwater Cowal, and will give the town better protection

Director Infrastructure and Engineering Services: What impacts would there be if the culverts were not upgraded?

Scott Button: This is more of a legal question. There could be a liability issue. What status does the committee and Council put on the railway embankment, as it is blocking the water? If you can open it up, it would be reinstating natural river flows, but would not protect the town because of the changing flood behaviour

Cr McCutcheon: Reinstating the natural flow would fit with the policy though?

Scott Button: Yes. As stated earlier, what liability is involved? I would advise the committee to gain legal advice in this matter

Cr McCutcheon: If the culverts were installed, this would cause more damage down stream of Backwater Cowal, as the water level would be at a higher level. This is something the committee need to take into consideration. However it would be a steadier flow if the railway is opened

George Mack: As well as being a legal issue, it is also a political issue. Further out west and at Nyngan and Bourke there is a precedence that the railway floods the towns. That could make us liable

Scott Button: This is purely a Council decision

Scott Button: Warren road people feel like they will be left in the river. The community need to accept there will be third party impacts

Director Infrastructure and Engineering Services: In terms of going forward with the new option, what is recommend?

Scott Button: The document findings and cost estimates have been done by SMEC. The committee needs to obtain advice on the legalities and liabilities, and provide recommendations to the key factors involved

Director Infrastructure and Engineering Services: So obtain advice and then schedule a meeting?

**MINUTES OF THE NARROMINE FLOODPLAIN MANAGEMENT COMMITTEE MEETING HELD AT
COUNCIL CHAMBERS ON TUESDAY 1 JULY 2020**

5. REPORT TO FLOODPLAIN MANAGEMENT COMMITTEE NAD DISCUSSION CONT.

Scott Button: If choosing Option B1, this needs to be done before planning anything else

General Manager: We need to gain legal advice before making recommendation

Cr McCutcheon: What impacts would there be if the western end of that levee is on higher ground?

Scott Button: This will be in the report, but will not impact flood levels. An Option B3 will be devised with the levee going through the golf course.

Public consultation would be a good opportunity to explain what the reasons are for the selection of the options etc.

Cr McCutcheon: I think the committee need to get an option out to the community now rather than wait to schedule another meeting

General Manager: Scott, could you come up with the preference on alignment with the determination be decided after the advice has come through?

Scott Button: Option B1 has the objectives of a levee to protect the town. In Option B1, move levee behind the golf course, with an alternate route in an Option B3 to be sent out to the committee for comment

Cr McCutcheon: With the natural town drainage, will the water end up at the Peppercorn Motel?

Scott Button: Yes, it will flow down the town cowl

Cr McCutcheon: Could we pipe it underground to go out over the levee?

Scott Button: Pumps become an evil necessity during floods

Cr McCutcheon: In Option B1, would the water and sewer infrastructure on Warren Road, at Skypark and the aerodrome be damaged? And can this be isolated?

Director Infrastructure and Engineering Services: These areas can be isolated but the infrastructure would need to be updated

George Mack: In option B1 with a 1 in 100 year flood, the water is barely running out at Webbs Siding

Scott Button: It has third party related impacts on properties along Warren Road but still protects the Narromine town

Cr McCutcheon: We could do something similar to what has been done on the southern side of the railway line, it drains across to the town cowl

George Mack: Do we have to plan for both a 1 in a 100 year storm and a 1 in 100 year flood?

**MINUTES OF THE NARROMINE FLOODPLAIN MANAGEMENT COMMITTEE MEETING HELD AT
COUNCIL CHAMBERS ON TUESDAY 1 JULY 2020**

5. REPORT TO FLOODPLAIN MANAGEMENT COMMITTEE NAD DISCUSSION CONT.

Scott Button: Yes, as for the 10 stock gates, they would have to be closed manually when the water reached a certain level. Ample time is needed to close these gates. There is always the potential to get another storm event while the gates are closed

George Mack: This shouldn't stop us from closing them

Scott Button: Don't forget, you are relying on people to do this

Cr McCutcheon: A community consultation was conducted a few years ago, is another community consultation required?

Scott Button: No, more emphasis needs to be put on the concept design

General Manager: A lot of the issues raised in the community consultation has been addressed in the new B1 plan

Scott Button: Crossley Drive residents don't want a levee, when the design was taken to the community

Craig Ronan: – Will Council have a levee operations manual available to services such as SES?

Director Infrastructure and Engineering Services: Yes, all key stake holders will be involved.

George Mack: The committee should explore culverts at Webb Siding in regards to being a safety valve and helping with community acceptance of the levee

RECOMMENDATION

Cr Davies/Cr McCutcheon that we update the risk management plan to include concept alignment B1

Director Infrastructure and Engineering Services: What was the general consensus from the community questionnaire?

Scott Button: 143 responses were received, which equates to a 9% response rate. Most responses were from residents, not businesses, with half of those lived here for more than 20 years. 21 responders had experienced flooding, with 12 referring to the 1955 flood

Cr McCutcheon: In regards to Option B1 does this affect the level on floor heights? Have you run the model?

Scott Button: No, I haven't generated the tables

Director Infrastructure and Engineering Services: Scott, can you produce a flow velocity heat map for the Option B1?

Scott Button: Yes, this can be done

There being no further business the meeting closed at 4.01 pm.

**MINUTES OF THE NARROMINE FLOODPLAIN MANAGEMENT COMMITTEE MEETING HELD AT
COUNCIL CHAMBERS ON TUESDAY 1 JULY 2020**

The minutes (pages 1- 5) were confirmed at a meeting held on 2020 and are a full and accurate record of the meeting held on 1 July 2020.

CHAIR