



# MINUTES

## LITHGOW

### CENTRAL TABLELANDS ALLIANCE (CTA) AUDIT AND RISK IMPROVEMENT COMMITTEE (ARIC)

held at

Lithgow City Council/Webex  
180 Mort Street, Lithgow

on

Wednesday 9 December 2020

at 11:50 AM

# ORDER OF BUSINESS

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The Chairperson declared the meeting open at 12.02pm.

## 1. Attendees

<b>Voting</b>	
Neil Maltby	Independent Member & Chair
Phillip Burgett	Independent Member
Phil Ross	Independent Member
Ray Thompson, Mayor	Lithgow City Council
Steve Ring, Councillor	Lithgow City Council
<b>Non-Voting</b>	
Craig Butler, General Manager	Lithgow City Council
Ross Gurney, Chief Financial and Information Officer	Lithgow City Council
Rhiannan Whiteley, Secretariat	Lithgow City Council
Gabriel Faponle, External Auditor	Crowe (External Audit Agent)
Chariee Bultitude, Director	Audit Office

## 2. Apologies

NIL

## 3. Confirmation of Minutes

The minutes from 9 September 2020 were endorsed by two members of the Committee being:

- Phil Burgett
- Neil Maltby

The minutes were presented to the Council on 25 November 2020.

### ACTION

**THAT** the Minutes of the meeting of be taken as read and confirmed.

**MOVED:** Phil Burgett

**SECONDED:** Neil Maltby

## 4. Business Arising from Previous Minutes

### 4.1. Committee Recommendations Tracking

The Chair called for any matters arising from previous minutes.

CFIO prepared a report to the Executive meeting this week in relation to the current cashflow status and will send it around to Committee members. Rates instalments were due at the end of November and some of the Water accounts were also due so cash inflows improved. Compared with last year, rates outstanding are about 12% higher to the end of November. There was \$1 million outstanding for water accounts, some not due at the end of November. Have been receiving payments into December but cash is still behind ordinary years. Council has deferred as much capital works program as possible without taking out urgent projects. Our focus is on completing grant funded projects. On two separate occasions,

Council has resolved to defer capital works projects. We are also reviewing vacant positions and considering if they can be deferred. There is a great deal of grant funding works to be completed.

### **Service Reviews**

General Manager advised the Committee that there have been difficulties recruiting for this position –two incumbents have left the role. Budgeted funds are available so we will move towards engaging a contractor in the back end of this financial year to make some progress on the reviews. One review has been conducted for the Rangers and Pound and management have reviewed the action report and recommendations. Some of the recommendations relate to additional resources so business cases will be brought forward and additional funding considered, however, it is highly unlikely Council will be able to address those in the short to medium term. We can at least identify them as a need. First priority is to get on top of our budgetary situation before we look at reviewing the staff establishment. In the new year, the General Manager will report on engaging a contractor and which services are to be reviewed.

Audit recommendation tracking spreadsheet provided to the Committee with only one outstanding item and CFIO will update that will go to the next meeting.

CFIO also presented the ARIC work plan to the committee for noting.

## **5. Presentations**

NIL

## **6. Agenda Reports**

### **6.1. Compliance**

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CFIO summarised the improvements completed in the year to date, the current status of compliance actions and management of legal and WHS risks.

Compliance requirements are being monitored at the executive level. We have a Time Critical Matters spreadsheet being reported to ELT on a monthly basis. This has been helpful and effective and highlights key compliance requirements.

Council has taken on an enforceable undertaking with the EPA in response to the Pollution incident at the Wallerawang STP which has a series of obligations. Compliance is being consistently monitored and there are a series of actions, positions, training paper for the industry, environmental programs that have each been programmed and all obligations are being met and monitored.

Updated Compliance Policy was adopted by Council and presented to the Committee. An effective framework is in place in terms of compliance which is strengthened with a continuous improvement approach.

## **ACTION / RECOMMENDATION**

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**THAT** the Committee note the report on compliance.

**MOVED:** Phil Burgett

**SECONDED:** Cllr Steve Ring

## **6.2. Risk Management – risk register report – new and reassessed risks**

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CFIO summarised risk management plans for this year and the current status of activities.

One new risk was added to the risk register following an insurance related complaint.

Regular risk management meetings are being held (monthly).

General Manager advised that Council will be managing the Lithgow Solid Waste Facility from 1 January. Strategies and mitigation processes have been implemented with regards to identified risks. There are a number of areas to consider such as financial, environmental, compliance, public perception and changing from a contracted operation. Council is fortunate to have a very experienced manager in this area

### **ACTION / RECOMMENDATION**

**THAT** the Committee note the report on risk management.

**MOVED:** Neil Maltby

**SECONDED:** Phil Burgett

## **6.3. Fraud Control - report on fraud strategies and controls**

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CFIO has completed the review of the fraud risk assessment and thanked Phil Ross for his feedback which helped to improve the risk assessment document. It ensured that there were treatment actions in place for higher residual risks.

Council also includes information on fraud control activities completed for the 12-month period in our annual report.

Many improvements flowed from audit management letter recommendations. This can be very helpful in driving the direction of improvement and where we need to focus our attention.

Phil Burgett agreed that where there is a high residual risk there should be a treatment plan. The narrative in the last column was an indication of planned action and he is not quite sure if they are specifically targeted enough - if specific action is being taken to try mitigate the risk. Where there is a residual risk rating of high, there needs to be specific actions to implement better controls to drive the rating down. Suggested that more targeted work be undertaken around the treatment plans.

CFIO will list for discussion at the next meeting - specific actions to improve the fraud risk assessment.

The Committee were also notified that EFT Sure is now fully implemented.

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## **ACTION / RECOMMENDATION**

### **THAT:**

1. The Committee note the report on fraud strategies and controls.
2. CFIO review specific actions to treat high residual risks for the March 2021 meeting.

**MOVED:** Phil Burgett

**SECONDED:** Phil Ross

## **6.4. Financial Management Report**

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The highest priority at the moment is the financial statements. Lithgow has not lodged yet however we have an OLG extension until the end of next week.

Chariee advised that there is one outstanding issue with council regarding restricted funds, particularly with water. The Financial statements disclosure on the water fund had to be elevated to the Assistant Auditor-General as it was a unique scenario. Explanations have been provided by Council and there is understanding but it meant that further work was required. Met with management yesterday and a plan is in place to move forward. Crowe will then conduct a review and send through to Chariee. They are working to progress this as quickly as possible to meet the 18 December deadline.

CFIO is working on a position statement report to outline the circumstances around the water fund balance to be sent to Crowe and the Audit office by the end of today. The General Manager provided the Committee with background on the water billing issues. A number of lessons have been learnt in relation to business continuity and he is unaware of other Councils in the same situation as us with regards to the new meter system.

Phil Burgett sought clarification regarding the issue with restricted funds in water. CFIO confirmed it relates to the operating expenses of the fund. Council still had water expenses to pay and had bills due to Water NSW but we did not have sufficient revenue coming in.

Additionally, COVID-19 assistance for customers included 0% interest for overdue accounts until the end of the year.

There were sufficient cash inflows between July and September to improve the Water Fund balance.

Part of the audit focus on restricted funds follows issues at Armidale and Central Coast Councils. The CFIO will provide an information article to the independent Committee members.

### **Quarter 1 budget review**

The CFIO has reported that Council's projected financial position at the end of June 2021 is expected to be unsatisfactory compared with the original budget position. Effectively, any operating carryovers impact the budget position because we have additional expenditure without any offsetting income.

The budget for interest and investment income was significantly reduced. The original budget was lower than recent years, however, interest rates and returns have declined further. There

has been an increase in operating expenditure which is partly offset by additional grant income, cost savings and employee costs. There was an \$800K increase in depreciation following the revaluations which were completed for the 2019/20 financial statements. The higher depreciation and lower interest and investment income will impact Council in the next financial year's budget and strategies need to be implemented to contain costs and generate additional revenue.

2021/22 budget preparation has commenced early, engagement with Council will take place in January and we will be drawing from experiences this year but also giving effect to the recently adopted Long Term Financial Plan for the year ahead.

### **Long Term Financial Plan**

The Long Term Financial Plan has been adopted by Council and was discussed at the previous meeting of the Committee.

Monthly budget reporting is reviewed at ELT meetings. Each Director report on their areas of responsibility. Key strategic projects are reviewed and there is a traffic light system to monitor progress.

Regularly at ELT meetings, employments costs are closely reviewed due to increases in recent years above the rate peg and CPI. Leave accrual and overtime are also reviewed. There are also reports to the monthly Finance Committee meeting.

An Extraordinary meeting of Council will need to be called to present the completed financial statements. We have 5 weeks from date of the audit reports to present the statements to Council.

Phil Burgett sought clarification on the cashflow issue. Reserves were adjusted at the end of June to reflect the cash situation. There was a shortfall in internally restricted reserves and balances were reviewed and reported to Council. The gas works remediation reserve was not required following assessment of the site.

The employee leave reserve was reduced. CFIO confirmed that it is maintained at around 20% of the leave liability. Early this financial year, some long term staff members retired and the reserve fund was not required for leave payments. Again an assessment was conducted to determine that there were sufficient funds.

Phil Burgett enquired in regards to internal reserve balances. CFIO advised that it is on the agenda to review the reserves again late in 2020/21, depending on the cashflow situation. The General Manager has commissioned a review of the land bank reserve – there are funds awaiting beneficial use so the fund requires review. The review will be conducted in the second half of the financial year. Another reserve is for the Main Street project – funds are held as a co contribution in the event grant funding is available.

There is a significant amount of carry over works with regards to capital works. There will not be such capacity at the end of this financial year due to the cashflow situation. It is important to ensure that project management and budgeting is considered for each year of a project rather than all budget being added in the first year of a multi-year project. The General Manager's emphasis will be on programming and phasing, monitoring and delivery of projects throughout the year. If we program and monitor we will deliver on time and on budget.

There has been a great deal of discussion with the Finance Committee and the Operation Committee regarding the volume of projects being promised for delivery.

Recent mitigating factors include the bushfires, flooding etc. that meant projects that were programmed to be completed could not be delivered due to the focus on disaster recovery works.

There have been many grant opportunities over the past 6-12 months with stimulus packages and bushfire recovery grants. These are good opportunities but can add to the capital program as well. Where possible, grant funding may replace the need for Council to fund projects.

#### **ACTION / RECOMMENDATION**

**THAT** the Committee note the report and discussions on financial management.

**MOVED:** Phil Ross

**SECONDED:** Phil Burgett

#### **6.5. Governance - report on key governance process (including the policy register & any significant conflicts of interest)**

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The CFIO provided an update on the current status of the governance framework.

#### **ACTION / RECOMMENDATION**

**THAT** the Committee note the report on the status of the governance framework

**MOVED:** Neil Maltby

**SECONDED:** Phil Burgett

#### **6.6. Implementation of strategies - report on implementation of strategic plans, Delivery Program and other IP&R strategies**

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ELT have reviewed strategies for the year ahead and continue to monitor.

The 2021/22 budget development process will commence early.

The Annual report was provided to the Committee. Fraud control is reported including activities undertaken in the 12-month period. Public interest disclosures are also reported in the annual report. Council had nil public interest disclosure reports.

#### **ACTION / RECOMMENDATION**



**THAT** the Committee note the report on implementation of strategies.

**MOVED:** Neil Maltby

**SECONDED:** Phil Burgett

#### **6.7. Service Reviews – update report**

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The General Manager provided an update during business arising from previous minutes.

A report will be prepared for the next meeting in March 2021.

#### **ACTION**

**THAT** a report on service reviews be brought back to the March 2021 meeting of the Committee.

**MOVED:** Neil Maltby

**SECONDED:** Phil Ross

#### **6.8. Internal Audit – report on audit action list and internal audit program**

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Project planning has commenced and a scoping meeting will be held today to initiate the Records Management Audit. A Water and Wastewater audit will be added to the audit program when the scope is determined.

The Committee were provided with the proposed scope for the Records Management Audit including information from Centium. Fraud risk will be included in the audit scope.

Phil Ross suggested that compliance with State Government requirements should be included in the scope. He queried if the scope included testing around the security of data, e.g. cyber security.

CFIO advised that Council undertakes penetration testing as a separate IT project, a contractor engaged to test Council's IT security. This is completed on a two-yearly basis and is due next financial year.

The Committee requested that Centium provide a report and presentation of findings to the Committee at the conclusion of the audit.

CFIO to schedule Centium to present findings from the Records Management Internal Audit to the March CTA ARIC Committee meeting.

#### **ACTION / RECOMMENDATION**

**THAT** the Committee note the progress on the internal audit program.

**MOVED:** Neil Maltby

**SECONDED:** Phil Burgess

## **6.9. External Audit – report on external audit**

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Council is expecting to receive the Audit Management letter soon after lodging the financial statements.

The Audit Office acknowledged the difficult year it has been and indicated their appreciation of the work that council has done with Crowe to finalise the audit.

Phil Burgett asked that the completed financial statements, management letter and audit engagement closing report be forwarded to Committee members when available.

### **ACTION / RECOMMENDATION**

**THAT** the Committee note the progress on the external audit.

**MOVED:** Neil Maltby

**SECONDED:** Phil Ross

## **7. General Business**

Cr Ring queried whether the Committee also reviewed the risk associated with the planning process. The functions of the Committee reflect the changes to the Local Government Act. Planning processes can be considered as a future internal audit project.

The General Manager thanked everyone for their contribution to the Committee this year and wished everyone a safe and Merry Christmas.

## **8. Meeting Close**

Next Meeting: 9 March 2021 – Oberon.

There being no further business the Chairperson declared the meeting closed at 1pm.