



MINUTES

LITHGOW

Central Tablelands Alliance (CTA) Audit & Risk
Improvement Committee (ARIC)

held at

Oberon Council
137-139 Oberon Street, Oberon

on

Tuesday 9 March 2021

at 10:55 AM

ORDER OF BUSINESS

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The Chairperson declared the meeting open at 11am.

1. Attendees

Voting	
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
Non-Voting	
Craig Butler, General Manager	Lithgow City Council
Ross Gurney, Chief Financial and Information Officer	Lithgow City Council
Rhiannan Whiteley, Secretariat	Lithgow City Council
Gabriel Fanople,	Crowe (External Audit Agent)
Chariee Bultitude, Director	Audit Office

2. Apologies

NIL

3. Confirmation of Minutes

The minutes of the 9 December 2020 meeting were endorsed by two members of the Committee being:

- Phil Ross
- Ray Thompson

The minutes were endorsed by Council at the 25 January 2021 meeting.

ACTION

THAT the Minutes of the meeting of 9 December 2020 be taken as read and confirmed.

MOVED: Phil Ross

SECONDED: Ray Thompson

4. Business Arising from Previous Minutes

The Chair called for any matters arising from previous minutes - NIL matters were raised.

The Committee was presented with the Committee Recommendations tracking report and advised the following;

Update on the Service Review -

Council is close to procuring a consultant who will undertake a review of two services within Council, which is likely to be the Library and Recreation Services.

This position has been outsourced due to two employees vacating the position in the past 18 months which has not helped with continuity in the role.

The Committee enquired as to whether the reports from the consultant will be presented to the Audit Committee. Both the General Manager and CFIO indicated they would.

Fraud Risk Assessment -

CFIO advised the Committee that the Fraud Risk Assessment action was completed. CFIO went through the high residual risk items and put more details in the actions that will be taken.

5. Agenda Reports

5.1 Compliance

CFIO advised the Committee that all was on track with our compliance obligations and we have completed a number of improvements.

The Executive Leadership Team (ELT) review the compliance requirements on a monthly basis and this is not just the OLG requirements but also upcoming actions required by staff relating to water billing etc.

Clr Ring made enquiries in regards to the requirements for compliance and reporting in relation to the upcoming election. Are there any election compliance requirements for Council? There are no requirements set out in the OLG calendar of compliance as it specifically relates to the Local Government Act and the regulations.

CFIO has a timeline for the actions required leading up to the elections. The CFIO has Wollongong Council's detailed elections plan for guidance. We also have the General Manager and a Director who have previously been involved with elections.

Election Planning will be included in the Executive Compliance timeline.

Phil Ross made enquiries about the frequency that staff delegations are reviewed. The financial delegations have been reviewed in the past two years and all staff delegations are reviewed annually.

With regards to the EPA enforceable undertakings, the Director of Water and Waste Water is responsible for monitoring this and reports regularly to the General Manager. The Director is

continually testing, reviewing, recording and reporting as required to make sure that tasks are on track. ELT have a calendar to monitor and keep track of key issues and monitor the milestones listed in the enforceable undertaking that are included on the ELT calendar. It is also listed as a standing item on the monthly Operations Committee agenda.

ACTION / RECOMMENDATION

THAT the Committee note the report on legal and compliance risks.

MOVED: Phil Ross

SECONDED: Phil Burgett

5.2 Risk Management

CFIO provided the Committee with a report of the improvements commenced in 2021. He will aim to provide a more detailed update on the Continuous Improvement Pathway to the next meeting. The Enterprise Risk Management Committee has not met this year due to staff absences. CFIO will provide an update to the next meeting of any progress with implementing last year's actions and also our participation in this year's program.

Phil Ross asked how the Risk Register linked with the 3 Year Internal Audit Plan. CFIO advised that he referred to the Audit Plan when developing the audit plan. In addition, the CFIO referred to the audit plan which was developed in 2015/16 that was not implemented past the first year.

ACTION / RECOMMENDATION

THAT the Committee note the report on risk management.

MOVED: Phil Ross

SECONDED: Phil Burgett

5.3 Fraud Control

Phil Burgett made an observation regarding the actions listed with a high residual risk. We should not have a high residual risk if we are taking action and have risk treatment plan. The risk rating should be lower. Are we too harshly rating these risks and not giving enough credit to the management controls? Are we being too conservative in how we are assessing our risks? If action is occurring then the residual risk should be medium or low.

CFIO will review actions again and resend to the committee.

Phil further added that we are adding work for ourselves if we are not undertaking a proper assessment of risks.

The fraud allegation involving a former employee was raised and whether this was an ICAC issue. CFIO indicated he had received additional information regarding the incident and that an investigation did occur at the time but since then the employee had resigned. The CFIO brought it to the attention of the Committee to highlight the controls that have been implemented since the incident occurred to minimise the risk of it repeating.

In response to a query from Clr Ring, the CFIO stated that Customer Service have been dealing with issues raised by customers in relation to the alleged fraud.

The Committee were notified that the Lithgow Waste Facility is cashless and that the VIC, Libraries and Aquatic Centre are moving in that direction.

ACTION / RECOMMENDATION

THAT the Committee note the report on fraud strategies and controls.

MOVED: Phil Ross

SECONDED: Neil Maltby

5.4 Financial Management

The CFIO informed the Committee that the Financial Statements were lodged on 18 December which was on time as per the extension that Council was granted.

The Quarter 2 Budget Review was included in the agenda to highlight a number of issues and financial challenges being faced by Council presently.

CFIO advised that rates instalments and the Financial Assistance Grant were due in February so it was a positive month for cash inflows. We still have a shortfall in reserves which council resolved to rebuild over the next 3 year period. We are near having a first draft operating and capital budget finalised for next financial year. We need to ensure both the operations and capital programs are fully funded from available cash and not using reserves for operations.

We have found ourselves in the position of using internal restrictions to fund capital projects and need to ensure that ceases. We are very aware of it and it is an issue we are staying on top off.

Council deferred a number of Capital Works projects this financial year to ensure we aren't using reserves to fund projects that should be funded from revenue. We are fortunate to have a number of grant funded projects this year and next financial year.

With the Council closure and staff going on leave over the Christmas period, leave balances have been reduced and ELT continue to monitor leave balances.

CFIO spoke about cost pressures that Council is facing with the distinct possibility that Council will be required to cover a significant increase in the Emergency Services Levy. The OLG have funded the past 2 years of increases via a grant allocation but the indication is that this will not be covered in the new financial year. Advocacy is continuing. There are also impacts from a large decrease in investment income.

Council needs to consider employment costs and service delivery. For a start, we have come up with \$600K of increased revenue and cost savings for next financial year and it is likely we will have to do more when the first draft budget is finalised. We have had to reduce our revenue funded capital works program as well.

The CFIO and GM indicated that they have not experienced this financial environment previously in local government, however, they are aware of where we are at, acknowledge the challenges we face and are making the necessary changes as required.

The General Manager indicated that the Commonwealth is reviewing the level of the Financial Assistance Grants to local government which would also have a significant impact if they were reduced.

In addition, there have been changes to the way in which mines are valued and rated and that will have an impact on the structure of the rating system going forward.

We are looking to establish a working capital fund rather than placing all cash in term deposits and relying on regularly maturing term deposits for weekly payroll and accounts payable outgoings.

The Committee discussed the financial position of other Councils as detailed in recent media reports and agreed that there would be a number of rural councils in similar situations to Lithgow Council.

The Chair enquired as to whether there were any expert or professional groups that Council can refer to, to have them review our figures to ensure we are going in the right direction. The CFIO indicated that we subscribe to LG Solutions (both their products and the monthly accounting journal) and they provide the latest information on what is happening in Councils. They have provided a detailed analysis of financial issues at Armidale Council and the Central Coast and the CFIO advised that he is across all the information that LG Solutions provide.

Phil Burgess acknowledged that Council is well aware of the current problem, actively implementing practices and from the Committee's perspective, they can see that Council is addressing and undertaking steps to rectify the issues, as well as having a plan to resolve the reserve issues.

The Committee discussed Special Rate Variations (SRVs). In Rural and Regional Councils these are difficult decisions, Council did flag a 5% SRV (from 1/7/23) in the Long Term Financial Plan update. IPART partially approved the SRV which only commenced last financial year but did suggest that Council may apply again in the future. At this stage, other options are limited and the new Council's support will be sought to apply for a SRV. This would require community consultation regarding our service level capacity within our financial means.

If ratepayers desired higher levels of service then they must be prepared to pay for this and communication is required. We also need to inform the community of the issue with the Emergency Services Levy increases.

The General Manager advised that we need to operate at our best in the existing environment but we also need to try change our operating environment and be proactive in our advocacy as a sector, particularly after the events of the past year.

The Committee agreed that they do not require the full detailed quarterly report and a simple summary will suffice. The CFIO will highlight the key points and remedial actions taken.

ACTION / RECOMMENDATION

THAT the Committee note the financial management report.

MOVED: Phil Burgett

SECONDED: Phil Ross

5.5 Governance

The Committee were provided with information regarding recent policy reviews.

The Investment Policy has recently been reviewed and minor changes were made. There were changes made around the counterparty limits and the levels we can have with each of the investment rating categories. CFIO will send through a copy of the revised policy to the Committee, once it is considered by Council. The changes were made to suit the current investment environment, we are investing only in term deposits and the returns are very low.

Phil Ross enquired as to whether we have an investment advisor. CFIO advised that we use a platform called Laminar for making our investments and they provide advice on term deposits and we pay a small fee to use the platform.

ACTION / RECOMMENDATION

THAT the Committee note the report on key governance processes.

MOVED: Phil Ross

SECONDED: Ray Thompson

5.6 Implementation of Strategies

The Committee noted the strategies that have been developed, particularly to improve the general fund operating budget position.

The Committee agreed that the progress reports on the Operational Plan do not need to be forwarded to the committee. A summary of the key points is sufficient. The committee simply needs to confirm that the Council has acted in accordance with the compliance obligation and has reported to Council. CFIO can report if there are any concerns and remedial actions taken. The Committee only need to confirm that the process is working from a risk management point of view.

ACTION / RECOMMENDATION

THAT:

1. The Committee note the report on the implementation of strategic plans, Delivery Program and other IP&R strategies (July to December 2020 Progress Report included as an attachment).
2. The number of attachments provided to the committee be reduced and a summary of the key points and actions taken be provided instead.

MOVED: Phil Burgett

SECONDED: Phil Ross

5.7 Service Reviews

The Committee were provided with a verbal report earlier in the meeting with regards to the Service Reviews.

The General Manager reiterated that a consultant is being engaged to undertake a review of two service areas within Council and that the final reports will be provided the committee.

ACTION / RECOMMENDATION

THAT the Committee note the report on service reviews and the verbal update provided.

MOVED: Phil Ross

SECONDED: Phil Burgett

5.8 Internal Audit

Centium have been engaged for the Records Management Audit which is in progress. The staff involved had a few queries arising from the audit process. Centium will review the audit discussion paper and bring it down to the key priorities for Council to focus on. A number of the items in the initial report were items that were beyond Council's resourcing capacity to deal with.

We have also nominated to undertake a Drinking Water Management System internal audit and this has now been included in the 3 year audit plan.

The previous issues with water billing have been resolved up and we are back onto regular quarterly water billing. Accounts are due to be sent out at the end of this month.

The Committee agreed it would be good to review the scope of internal audits before the audit proceeds. Phil Ross made enquiries about the Water Management audit and whether the scope would be coming back to the committee.

Phil Burgett asked where the Drinking Water system sits in our risk register – is it a high risk? Do we have exposure? Do we have concerns?

The General Manager advised that it is a complex process with so many variables. High reputational risk, the complexity of running a water and sewer utility with thousands of properties, quarterly accounts, environmental standards, water quality standards, reporting, etc.

The Committee queried the consultant we would be using? CFIO advised that some of the scope is prescribed as to what needs to be audited. CFIO will provide a detailed high level summary to the Committee as well as the timeframe for commencement. The audit is unlikely to be completed before the next Audit meeting but should be commenced. Once the scope has been finalised it will go out for selective quotation.

Clr Ring asked whether the scope will cover the delivery of the water. How do we manage the network of delivering the water to the consumer? The General Manager advised that we have recently appointed an Asset specialist and we are starting on the asset management system development for Water and Wastewater. It is a very complex task with an extensive subterranean network. There are likely to be matters arising from the audit process that will be brought back to the Committee for review.

CFIO advised that the Records Management audit is approximately 3-4 weeks behind schedule, however, it is hoped to have it completed by the end of this month. Once finalised, the report will be sent to the Committee for review and comment.

ACTION / RECOMMENDATION

THAT:

1. The Committee note the report on the audit action list and the internal audit program (copy of updated 3 Year Internal Audit Plan included as an attachment).
2. A copy of the Records Management Audit report be forwarded to the Committee once complete.
3. The scope for the Drinking Water Management System audit be forwarded to the Committee for comment.

MOVED: Clr Steve Ring

SECONDED: Phil Ross

5.9 External Audit

CFIO advised that we received the Final Audit Management letter with six issues identified, all of which have been actioned immediately and the issues have been included in the audit action list.

The Audit Office commented that it is good to see that the items from the Management letter have been completed. Part of the Management letter is an appendix which has previous management letter issues, some of which will be reviewed during the course of the upcoming audit. A number of issues are around policies and procedures and IT.

In terms of the 20/21 audit, representatives from both the Audit Office and Council's contract auditors met with the CFIO and Finance Manager at the end of February to put together the Annual Engagement Plan. The plan has been drafted and reviewed by Council and is with the Audit Office to be finalised. It will be issued this week and will be presented to the next Audit Committee meeting.

Some of the main items that are on the annual engagement plan for this year are:

- COVID and the ongoing impact to Councils, particularly the impact on revenue streams and how Councils in general are dealing with the pandemic;
- Focus on infrastructure, property, plant and equipment;
- Revaluations will include bridges and the pool, Crowe will work with management to review the revaluations early;
- Quality and timeliness of financial reporting - there is already a plan in place to work with Council so that we can manage our timelines to avoid delays;
- IT and general controls including a cyber security focus; and
- Restricted cash balances – Auditor-General is looking at this across the board for all Councils, particularly disclosures in the financial statements and to make sure there is no non-compliance with the Local Government Act requirements.

The Annual Engagement Plan will be forwarded to the Chair prior to the next meeting.

Phil Ross asked whether there were any new accounting standards that will impact Council. The Audit Office advised that there is one new standard, the AASB1059 which is service concession arrangements. This is where the delivery of a public service is outsourced to an external third party. They don't believe this will have any impact on local Councils, however, an assessment is still required. There is information on the standard provided in the Annual Engagement Plan.

ACTION / RECOMMENDATION

THAT the Committee:

1. Note the report on external audit (copy of the final audit management letter included as an attachment).
2. Receive and note the Conduct of Audit Report for 2019/20.
3. Receive and note the Engagement Closing Report for 2019/20.

MOVED: Phil Burgett

SECONDED: Clr Ray Thompson

6. General Business

There was NIL General Business.

7. Meeting Close

Next Meeting: 8 June 2021

There being no further business the Chairperson declared the meeting closed at 12 p.m.