



MINUTES

LITHGOW

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

held at

Council Administration Centre
Committee Room
180 Mort Street, Lithgow

on

Tuesday 8 June 2021

at 12:00 PM

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The Chairperson declared the meeting open at 12.24pm

1. Attendees

Voting	
Neil Maltby	Independent Member & Chair
Phillip Burgett	Independent Member
Phil Ross	Independent Member
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
Penelope Corkill	Centium - Records Management Audit

2. Apologies

Ray Thompson, Mayor	Lithgow City Council
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3. Confirmation of Minutes

3.1. Confirmation of Minutes

The minutes were endorsed by two members of the Committee being: with a correction to Phil Burgett's name on page 7.

- Phil Burgett
- Phil Ross

ACTION

THAT the Minutes of the meeting of 9 March 2021 be taken as read and confirmed.

MOVED: Phil Burgett

SECONDED: Phil Ross

4. Business Arising from Previous Minutes

4.1. Committee Recommendations Tracking

The Chair called for any matters arising from previous minutes.

Committee discussed the Recommendations Tracking Spreadsheet.

An update on the 2020/21 Continuous Improvement Pathway has been included in the Risk Management agenda item.

Fraud risk assessment - CFIO reassessed the high residual risk ratings in the Fraud Risk assessment and if we are taking action and have risk treatment plan amended the rating.

Both actions have been completed.

The Committee have not received the scope in relation to the Drinking Water Management System Audit - this project has been delayed but CFIO will add to the Recommendations Tracking so that it isn't overlooked.

Risk Management - Clarence Wallerawang Pipeline Briefing Paper

CFIO brought this to the Committee's attention and included a briefing paper. This project is in the early stages of planning and is a major project. The complete project has not been endorsed by Council or included in Council's strategic planning documents. There are a wide array of risks involved. The purpose of it being presented to the Committee is to bring the project to the Committee's attention.

Lithgow currently sources its water from two suppliers, one from Fish River via Water NSW and a second supply from the Clarence Plateau via a Coal mine. There is a dam that sits above Lithgow but all supplies have some long-term issues or challenges.

It could potentially be a \$30 million project from the supply through to Wallerawang that includes a new water treatment plant, planning pathways to deal with, significant risk issues, perceptions or potential for actual conflicts because of the sharing of the projects costs between the private sector, State Government and Council.

We are undergoing major exercises to scope those risks, we will bring a probity advisor on board to guide us in terms of the probity risks and we are getting legal advice in terms of the planning pathway. It is a high opportunity but also a high risk project. We will continue to periodically update the ARIC in terms of the project's progress.

The project is reliant on a private company and the State Government however we would need to determine ownership of the assets at the end of the mine's life.

The plan prior to this project arising as a possibility was that we had in the long term financial plan to renew the Oakey Park Treatment Plant towards 2029-30.

5. Presentations

Records Management Audit - Final Report - Presentation - Penny Corkill - Centium

The internal audit of Records Management has been completed in accordance with Lithgow City Council's Internal Audit Plan and Penny Corkill from Centium provided the Committee with the findings.

There were 6 findings overall. 2 Major, 2 Moderate and 2 Minor.

Excellent records management policies underline the positive and rigorous approach to records management at Lithgow City Council. These policies have generally been effectively implemented and reflect the fundamentals of recognised records management standards.

The audit found major risk exposures relating to physical security and records management disaster planning

Induction training on ECM and records management is reasonably effective; though refresher courses are essential.

There is really good experience in the Records Management Unit to promote and manage effective records management. File movements are recorded effectively.

Key findings

Disaster planning Council's Records Unit Counter Disaster Plan and Vital Records Strategy were last reviewed in 2014 – it is really important that these plans be refreshed to ensure if anything does happen we can recover our records.

Controls over physical security, access, environmental measures and file movements could be improved in some areas. Recommendations on this finding have been provided.

There are inconsistencies with the records captured from each department to the next.

Council has a substantial amount of historical records. We need to nurture these records and ensure that council has the capacity to maintain them. It is worthwhile to determine if any records have state significance.

Minor exceptions were noted regarding user access controls and document classification. Records are not formally reviewed to ensure that it is accountable and performed in accordance with business needs. It is recommended that Council implement a program of review of user access controls to ensure that individual access continues to be appropriate.

Compared with other councils Lithgow is doing well. Council has a good history of records. A number of recommendations have been made by Centium and a time line to address each has been put in place. These will go into the audit action list that is maintained and reported to the ARIC as well as the Finance Committee.

Centium have offered us their online training module for use by staff.

The Committee thanked Penny for her assistance.

CFIO is to circulate the final report to the independent members.

Recommendation

THAT the Committee note the report from Centium on the Records Management Audit.

6. Agenda Reports

6.1. Risk Management

We have made progress with the Continual Improvement Pathway (CIP) Program for 20/21 and have completed the workbooks and received feedback. The program is at the implementation and action stage now.

The insurance renewal should be done within a couple of weeks and we can review what the premiums are at that point to ensure they are within our budget range for next financial year. We can also look at excesses that we have on the policies as well. We have a set process for that each year financial year.

CFIO reported no new risks added to risk register since March 2021.

We have completed a fraud risk assessment workshop in the past few weeks and that will feed into the Risk register. JLT undertook the review of our Fraud Risk Assessment, they provide us with a Risk spreadsheet and CFIO will include this in the next meeting agenda.

CFIO provided a summary of the CIP Program. The Building Assets area has much improvement required, particularly around strategy and policy development. We do not have fully built Asset Management Plans, it is a major complex piece of work and the focus is mainly on our larger assets such as roads, storm water, sporting fields etc. GM receives regular briefings on the development of the Asset Management system and plans and is buoyed by the work that is being done.

The buildings are safe but we don't have clarity on how best to manage the portfolio or a true appreciation of how much we need to spend and what resources are required.

The outcomes from this assessment are reported to the Risk Committee and they follow up as to progress. It is based on Y/N questionnaire. We have been building on it piece by piece. JLT will review this again in the next few years.

We need to develop the Asset Management Plans that will give us a better understanding of when maintenance and renewal is due. They have been collecting the data on each building so they know what is in each building and can work out when it needs to be replaced. This highlights where we are at and allows us to determine where we need to be.

How does it flow through to the risk register? It is a good example of the work we need to do to inform the risk register.

The General Manager gave assurance that 3 areas were reviewed in the 2019/20 CIP program and the Risk committee are monitoring a response to those and improvements.

The CIP Program is based on self-assessments. StateWide do comparison between other LGA's and last year we scored low compared to some others but we are taking steps to improve.

In the area of Event Management we did exceptionally well. With a full time event manager, this was an outstanding result.

Footpaths scored 61% and this has been improving especially in the documentation area. This area has previously been assessed and we have shown improvements. CFIO will review the previous score.

ACTION / RECOMMENDATION

THAT the Committee note the report on risk management.

MOVED: Phil Burgett

SECONDED: Clr Steve Ring

6.2. Compliance

CFIO referred to the work plan and improvements planned for this financial year.

Risk Committee continues to meet monthly.

Compliance calendar is up to date and we continue to report to ELT on progress and ensuring everything is completed each month. We include all the compliance activities we are monitoring and report it to the executive each month.

Information provided on any issues that have arisen since last meeting including the Portland STP discharges.

The General Manager has been indicating to the Water Wastewater area that there needs to be a focus on quality. We are building better systems and processes. We need everyone at everyone at every level to be operating in accordance with our practices and procedures. We are using the WHS staff and others to independently review rather than self-assessment inside some of these portfolios.

We had already engaged a consultant to review the STP's and we are also following up when there is an incident with any training, if necessary. The WHS team investigates incidents to determine whether the safe work practices were being met and what training is required, who was responsible for the job.

What is our formalised review process or system in place for managing issued fines? When we issue fines what processes are in place to ensure we are current with the legislation in terms of how much can be charged and the whole process of following through to payment. The CFIO advised that regulatory fees and charges are updated each financial year. Most Council's manage fines through the Office of State Revenue.

ACTION / RECOMMENDATION

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

MOVED: Phil Burgett

SECONDED: Phil Ross

6.3. Fraud Control

Since the last meeting the Fraud and Corruption Policy was reviewed – with minor changes only and the policy was adopted by Council. The policy and the other documents reflect the audit office templates for fraud policies and risk assessments.

With regards to the Fraud Risk Assessment spreadsheet, Phil Burgett asked for clarification around the items that were listed as “treat residual risk”. Residual risks can be accepted after the treatment action. CFIO to look at clearing up table (moving around columns). Switch the columns around and put the treatment action that was taken and accept the residual risk.

Checklist is completed and attached in Tech 1 for all PO requisitions and amendments requiring the GM’s signature. Delegations resides with GM for higher cost items - more documentation is required for GM to sign off these items.

There is no induction process for CFIO at commencement of employment however financial Delegations for each staff member is in our Delegation Register.

CFIO reported on the recent fraud risk assessment workshops. A Fraud Risk Register spreadsheet was provided for areas including Finance, IT, Procurement and that is with the supervisors now to review and will come to the next meeting. The fraud risk assessments will feed into the Risk Register.

ACTION / RECOMMENDATION

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

MOVED: Phil Burgett

SECONDED: Cllr Steve Ring

6.4. Financial Management

Since the last meeting, we have completed the quarter 3 budget review and the Council report was provided to the committee as a summary. The financial position at 30 June 2021 is projected to be unsatisfactory. We were projecting a deficit operating result at the end of this financial year which is partly due to a reduction in rates income and increases in costs.

The rates income adjustment relates to an objection to a valuation for 3 coal mines. The coal mines were impacted by recent changes to the coal mine valuation methodology and a mine owner appealed against the valuations. 3 mines had an adjusted valuation so we had to adjust the rates for this financial year by \$524K. We only received advice of the valuation change in January 2021 so it was too late to change the rating base for this financial year. The Local Government Act states we can recover the lost income in the following rating year so we have been through a process of modelling the fairest way to allocate it across all the rating categories. The Committee supported the plan to recover the lost income in the 2021/22 year.

The other part of the cashflow issue is the impact on restricted reserves. CFIO has been reporting to the Committee on cashflow issues for the past 12 months. We are at a point now where we have substantially depleted the internal restrictions and we continue to put in stronger controls around cash going out. We will be planning all of our projects well in advance for the next financial year and then matching that with available cash based on cashflow modelling. We may need to defer or delay lower priority works until we have the cash available. There is also the strategy we have put in place for building the capital fund up to \$1million so we have that buffer for the weekly cash needs.

External restrictions have been building - they have increase by over \$4million in the past 12 months, a large part because the water fund was in deficit because of the delayed billing and we have turned that around. Our cash and investments is about \$1million higher but we have had \$4million extra in external restrictions so we have been depleting internal restrictions.

We have deferred over \$7million in capital works projects for this financial year. We continue to monitor cashflow on a daily basis, plan ahead, build a cashflow model, have the working capital fund. At the end of June we will not have any shortfall in our external restrictions. We are still expecting \$3million plus half of the 2021/22 Financial Assistance Grants (FAG) which is paid in advance. Council will need to determine the reserve balances for what is left which will be roughly the \$3million plus FAG at the end of the financial year.

We have engaged an expert facilitator to review the financial position and the strategies that we can implement to stop the leakage of our funds and develop a parallel strategy to grow our financial capacity. We have introduced extra controls, wound back delegations, are building the cash flow model, thoroughly set up next year's budget based on available cash and improved phasing of budgets.

The three keys reasons for the current financial position are investment income falling by over \$600K over a couple of years. Also, we planned for an SRV in our Long Term Financial Plan and received partial approval which meant \$300K less in projected income. Employment costs have been increasing above CPI for the past few years.

We are still reporting our financial position to the Office of Local Government every six months. A copy of the most recent budget review is provided with each report. CFIO is aware that the OLG does monitor Council quarterly budget reviews, particularly for the general fund. At this stage, we have not had any issues raised by OLG.

The Investment Policy was reviewed and adopted by Council at the March meeting.

We are looking to update the Long Term Financial Plan early in the new term of Council. \

ACTION / RECOMMENDATION

THAT the Committee note the financial management report and the information provided on Council's ongoing cashflow issues which have resulted in depletion of internally restricted funds.

MOVED: Phil Burgett

SECONDED: Phil Ross

6.5. Governance

The CFIO provided an update on policy reviews. A few policies have been updated since the last meeting of Council.

Report provided information on conflicts of interest

Election planning is ongoing. Most of the work is being undertaken by the Electoral Commission. We are hosting a candidate briefing session on 16 June.

CFIO provided information on the Risk Management and Internal Audit framework workshop conducted by The Institute of Internal Auditors.

ACTION / RECOMMENDATION

THAT the Committee note the report on key governance processes.

MOVED: Phil Ross

SECONDED: Neil Maltby

6.6. Implementation of strategies

There is a lot of strategy development and implementation at the moment as discussed in the financial management report.

We have the Operational Plan going to the June Council meeting for adoption. We have had a number of changes to the budget with finalisation of capital projects for next financial year which will be included in the final report to Council. The capital works program is focused as much as possible on grant funded projects for next financial year. The program is focussed on asset renewal rather than new works.

ACTION / RECOMMENDATION

THAT the Committee note the report on strategy implementation.

MOVED: Phil Ross

SECONDED: Neil Maltby

6.7. External Audit

The Interim Audit was completed in late April. There are nil outstanding actions from the 2019/20 Audit Management letters but we are still awaiting the Interim Audit Management letter.

CFIO included the Audit Engagement Plan in the agenda which was finalised in March.

Chariee advised that the annual engagement plan is on track. Gabriel and his team have been on site for the interim audit. With regards to the cashflow issue, management is keeping the auditors up to date with what is going on and Chariee is having discussions with the Auditor General's executive. Meeting will be scheduled before the end of the financial year so that the Auditors are aware of the financial statement disclosures and that we can meet the timelines for auditing and reporting.

Gabriel advised that he would be meeting with CFIO again but at this stage no update is required.

CFIO will schedule meeting with the auditors before the year end.

ACTION / RECOMMENDATION

THAT the Committee note the update on Council's external audit program.

MOVED: Phil Burgett

SECONDED: Phil Ross

6.8. Service Reviews

CFIO provided an update to the committee in the agenda report. He had not had an update before the meeting as to whether we had engaged the external provider but that is planned to commence later this month.

General Manager indicated that this service reviews are taking longer than we would have liked but we are devoting every second week of the executive's time to the financial challenges so that is taking priority.

Looking at the approach of the provider to the service reviews this will help us consider potential for alternate service delivery mechanisms.

ACTION / RECOMMENDATION

THAT the Committee note the update on Council's progress with service reviews.

MOVED: Neil Maltby

SECONDED: Clr Steve Ring

6.9. Internal Audit

Centium presented on the findings from the Records Management Audit. The Drinking Water Management System Audit has been moved into next financial year as it is apparent that it won't commence this year. CFIO needs to follow up with the Water & Wastewater team to get past the delays that have occurred with the consultation with NSW Health, we need their input for the audit.

Once a detailed scope for the water audit is finalised then CFIO will send through to the Committee.

ACTION / RECOMMENDATION

THAT the Committee note the report on the internal audit action list and the internal audit program.

MOVED: Phil Burgett

SECONDED: Phil Ross

6.10. Annual ARIC Work Plan

CFIO added as a reminder of where we are at and advised the Committee that we have covered everything that was included in the Annual Work Plan.

CFIO has incorporated the work plan into the reports each quarter for each of the areas of the charter which reflect the Act.

ACTION / RECOMMENDATION

THAT the Committee note that the June 2021 Annual ARIC work plan actions have been included in the agenda reports.

MOVED: Phil Burgett

SECONDED: Phil Ross

6.11. Auditor-General's Report on Local Government 2020

The CFIO provided the Committee with the Auditor General's Report on Local Government 2020.

Chariee Bultitude advised that the report was changed this year to identify Councils individually to a larger extent. The Auditor General has had the mandate for a while now and they are gathering an in-depth database of information. Some Councils were disappointed to be named in the report but it improves transparency and is good for Councils to see where they sit in the industry.

The RFS assets are causing some debate amongst Councils. The Auditor General has reviewed her position and is holding firm that the assets are best situated with Councils. As a last minute inclusion they did look at which Councils had them included in their financial statements and those that had not included the RFS assets. Those that don't carry them show them as uncorrected misstatements. There is a push now to put them on Council books so there will be a look at those assets going forward.

There is debate around the Central Coast Council and what that means for other councils. Some councils are comparing themselves to the Central Coast and the Auditor General is discouraging this. The qualification was based on their unique criteria particularly around the restricted funds to do with their water assets. The water assets are under a different legislation.

Central Coast had issues with poor financial management, poor governance, poor budgeting and the amalgamation. There are lessons to learn but they are very individual to the Central Coast.

The RFS assets will remain a matter of contention. Councils don't feel they control those assets and if Councils were to take them on then that is going to add to depreciation expense and impact their operating results. Councils have made their positions clear.

The State Government have decided that they don't control the assets and so control is with Councils. They have undertaken another assessment involving OLG, Treasury and have been in consultation with some of the Councils that do have differing opinions. They have decided that because the assets are vested with Councils, the Council has legal ownership. They have done work behind the scenes to form that opinion and that is adding to the debate. The Auditor General is holding firm on her position at the moment but the debate will continue.

ACTION / RECOMMENDATION

THAT the Committee note the Auditor-General's Report on Local Government 2020.

MOVED: Phil Ross

SECONDED: Neil Maltby

6.12. Institute of Internal Auditors - ARIC Workshop

CFIO sent through the slides from the ARIC Workshop to the Committee members. We are currently waiting for guidance on future regulations.

Phil Burgett indicated that the slides referred to a number of discussion papers and requested copies from the CFIO. CFIO will provide them to the independent members.

Phil Ross believes that the Committee progressing rather well and that there is not much that this Committee needs to change.

CFIO provided a summary of the workshop. There is still no legal requirement for an ARIC, however, the Committee agreed that the ARIC has proved its worth. Once the guidelines are released there will be resourcing implications for Councils.

Neil Maltby believes in checking the systems and conducting surprise audits, programming 3 years ahead of what we are auditing should allow flexibility.

CFIO said that we still have flexibility within the program to allow for a surprise audit if needed. The previous General Manager put a payroll audit in place as he had some concerns over documentation of processes.

ACTION / RECOMMENDATION

THAT the Committee note the information provided on the ARIC Training Workshop.

MOVED: Clr Steve Ring

SECONDED: Neil Maltby

7. General Business

The Committee reiterated their gratitude to Phil Burgett for his excellent contribution to the Lithgow ARIC.

8. Meeting Close

Next Meeting: TBA - October 2021

There being no further business the Chairperson declared the meeting closed at 2.07pm.