



MINUTES

Finance Committee

held at

Council Administration Centre
Committee Room
180 Mort Street, Lithgow
& WEBEX

on

Monday 13 September 2021

at 4:30 PM

ORDER OF BUSINESS

1. Present	3
2. Apologies	3
3. Declaration of Interest.....	3
4. Presentations	3
5. Staff Reports	3
5.1. 2020/21 Interim Audit Management Letter.....	3
5.2. New Risk Management & Internal Audit Framework	4
5.3. 2021/22 Financial Assistance Grant.....	5
5.4. Audit Action Lists.....	5
5.5. Reserve Balances & Preliminary 2020/21 Operating Result.....	7
5.6. Cashflow Report - August 2021	7
5.7. Investment Report August 2021.....	7
6. General Business.....	8
7. Meeting Close.....	8

1. Present

Clr Ray Thompson, Clr Steve Ring, Clr Wayne McAndrew, Craig Butler, Ross Gurney, Neil Derwent

Officers: Rhiannan Whiteley (Minutes)

2. Apologies

NIL

3. Declaration of Interest

NIL

4. Presentations

NIL

5. Staff Reports

5.1. 2020/21 Interim Audit Management Letter

Five issues were identified during the interim audit (4 moderate risk, 1 low risk)

Some of which have already been completed and the remainder are on track for completion.

1. Financial Reporting – monthly reconciliation fixed assets register
2. Review of revenue master file changes
3. Corporate Governance - contract register
4. Financial Reporting – inactive supplier payment
5. Bank reconciliation – unallocated deposits

All management actions have been added to the 2021 audit action list to track progress towards completion.

The CFIO and Financial Services Manager provided the following advice:

1 – Financial Reporting: reconciliations are completed monthly, however, there was one reconciliation to do with the assets where we had a problem with depreciation which took some time to fix with the software provider.

2 - Review of revenue master file changes: by the time the management letter was received, it was too late to correct the issue for the beginning of this financial year. We are embarking on a program to improve systems. The revenue master file is currently checked manually by an independent officer. We are looking at automating this process through system upgrades. Currently the Finance Manager is the independent person because he isn't involved in the process. An extension of time to complete will be required. This process is only required to be completed annually and won't occur again until June next year.

3 - Contract register: the website version of the register in the process of being updated. This is something that was not occurring regularly and we need to have a process in place with our Procurement Coordinator for updating the website version.

5 - Unallocated deposits – timing issue. All unallocated deposits have been cleared. It is a manual process that took some time. The CFIO advised that they can remain unallocated for a while as it takes time to investigate – a receipt has come in and we haven't known who paid it. Usually, we wait for a remittance advice or do some investigation to see who paid. The auditor picked up that we had some deposits back as far as 2018. Deposits should be cleared monthly but definitely should be done before the end of each financial year.

CFIO advised that all actions are in progress to deal with the issues – two have been completed upon receipt of the letter and three are due by end of this month. Two will be completed and we will seek an extension for the second item. We are not expecting that the Auditor will have an issue with the extension for item 2.

ACTION / RECOMMENDATION

THAT the 2019/20 interim audit management letter be noted by the Committee.

MOVED: Councillor S Ring

SECONDED: Councillor W McAndrew

5.2. New Risk Management & Internal Audit Framework

The Committee discussed the draft guidelines for Risk Management and Internal Audit for Councils in NSW to guide the operations of Audit Risk & Improvement Committees (ARIC) that were recently released by the OLG.

At the moment, its completely up to Council what the membership and voting structure is, however, under the draft guidelines Councillor members are non-voting and must satisfy eligibility criteria to be appointed as an ARIC member. The Mayor cannot be appointed as a councillor member on an ARIC.

These guidelines have a more principles based approach – the original guidelines included the need to have an internal audit executive and you can now include that as a function of a dedicated position. There will be more work required in internal audit and risk management so Councils will need to take that into consideration but they haven't mandated the requirement to have additional senior positions.

The General Manager commented that this is not an appropriate model for local government. There should be Councillor representation on the ARIC. We are currently using our ARIC effectively.

It is really just conjecture as to what the motivation is for the exclusion of Councillors as voting members. Phil Ross (Independent Member of ARIC) has put together his own submission and his thoughts are that they are designing this around the State government type audit committees and not taking into consideration the local government context.

Councils may make submissions on the draft guidelines by 26 November 2021.

The Committee agreed that the Mayor and a Councillor need to be voting members on this committee. Include input from the independent members in a submission. Report will go to the September Council meeting detailing what our submission will be along with the recommendation from the Finance committee.

There is nothing that we need to do in the short term because we already have an ARIC set up. Council's have until June 2022 to establish an ARIC.

ACTION / RECOMMENDATION**THAT** the Finance Committee:

1. Note the information provided on the OLG's draft guidelines for Risk Management and Internal Audit for Councils in NSW.
2. Support a Lithgow City Council submission on the draft guidelines, supporting Councillor members being included as voting members and Mayors being permitted to be a voting Committee member.

MOVED: Councillor S Ring**SECONDED:** Councillor W McAndrew**5.3. 2021/22 Financial Assistance Grant**

The NSW Local Government Grants Commission's has provided a summary of Council's 2021/22 estimated Financial Assistance Grant (FAG) entitlement. Council has received a 2.5% increase on the 2020/21 FAG and the allocation is \$172K above the budget estimate. We have a positive budget variation for the Quarter One budget review.

The Grants Commission has stated that Councils should be mindful that, given the current economic environment, there is a real possibility that there will be an extended period of a reduced CPI going forward. Lithgow Council has received some above CPI increases in recent years.

The General Manager stated that an increase in the FAG was raised at the National General Assembly as this is an ongoing issue across local government. Council will continue to advocate for a fair share of the grant.

The letter from the Executive Officer of the NSW Local Government Grants Commission asked that her letter be tabled at the next Council meeting. The letter will be included with the Finance Committee meeting minutes.

ACTION / RECOMMENDATION**THAT** the Finance Committee note the information provided on the 2021/22 Financial Assistance Grant and payments received in recent years.**MOVED:** Councillor W McAndrew**SECONDED:** Councillor S Ring**5.4. Audit Action Lists**

The following audit actions have been added to the audit actions tracking sheet:

Internal Audit – Records Management: 6 audit actions to complete (2 major risk, 2 moderate risk, 2 minor risk).

Audit Office Performance Audit - Procurement Management in Local Government: 4 improvements to be completed by 31 October 2021.

Fraud Control Framework Review (conducted by insurers): 15 actions to be completed (excluding duplicated actions).

2020/21 interim external audit – 5 actions (4 moderate risk, 1 low risk).

The terms of reference for the Finance Committee include a responsibility to monitor external audit actions and timely completion of actions so this item has been included on the agenda with recent audit actions added.

Clr Ring requested additional information in relation to Action No. 6 and No. 17. The CFIO took this question on notice.

Clr Ring as for clarification on No.8 – assume that under any contract if the supplier is requesting a variation they have to put the reasons in writing to council, and council either accepts or rejects the request. The CFIO stated that the suggestion is to have a checklist developed and attached to the PO to keep a consistent record which also keeps a track of suppliers who may regularly request variations.

Clr McAndrew made enquiries about the timeframe for completion of the listed items. The CFIO advised that there are a range of dates depending on the risks involved, for example, in relation to the Records Management audit. The Major risk actions have a due date for the end of this month and the moderate and minor ones for the end of November. The external audit actions were discussed in a previous item and are mainly due by the end of September. Procurement Management actions are due at the end of October, there were 4 improvements that we identified from the Audit Office report and Fraud Control actions are due the end of December for the high risk ones and the end of March next year for the moderate risks.

CFIO provided the following information to the Committee following the meeting:

The Fraud Control Framework Review conducted by Council`s insurers directly referenced the work of the Audit Office on fraud control in local Councils. The actions included in the Fraud Control Action Plan (discussed at yesterday`s meeting) tie back to the Audit Office work.

With regard to Action No. 6 - Single person approval for DA projects below \$600K, to be reviewed for further improvement on fraud & corruption control prevention:

- *Rather than any specific issue at Lithgow Council, the action appears to be referencing the ICAC investigation of a Willoughby City Council development officer engaging in corrupt conduct by exercising his official functions to favour various business owners. Having a secondary approval mechanism for DA projects below \$600K would mitigate the risk of corrupt conduct.*

With regard to Action No. 17 - Where council does not have technical knowledge, engaging a consultant to assist in development of the specification or to write a brief focusing on the outcomes, user requirements and functional requirements to allow potential tenderers to respond in the desired way.

- *This action would be an improvement to ensure consistency for tenders where council does not have technical knowledge. We can add a requirement to Council`s tendering procedures to ensure that Council budgets for the use of consultants (when required) and uses consultants consistently to develop outcome focussed and technically complete tender specifications.*

ACTION / RECOMMENDATION

THAT progress towards completing the internal and external audit actions be noted by the Committee.

MOVED: Councillor S Ring

SECONDED: Councillor W McAndrew

5.5. Reserve Balances & Preliminary 2020/21 Operating Result

Finance staff have completed the reconciliation of Council's reserve balances at 30 June and prepared a preliminary 2020/21 income statement.

As external restrictions have increased more than the cash and investments total, less funds are available for discretionary internal restrictions than at 30 June 2020. This limits the funds available for the land and buildings reserves which are severely depleted. Council has strategies in place to ensure the depletion of those reserves doesn't continue, including the adoption of a cash surplus budget and approval of a \$4M line of credit facility to strengthen Council's working capital position.

Council needs to operate within its means. Ongoing operating deficits and depletion of internal reserves indicate that structural changes to Council's methods of operation and service delivery are required to ensure Council's long-term financial sustainability. The General Manager has asked staff to ensure that lessons are learned and to implement system improvements to prevent recurrences of issues. To ensure financial resilience we need to move to more reliable technological systems.

It was identified that Council's 45% contribution to the pensioner concession rebate had not been expensed for the past two years. The amount expensed in the 2020/21 year was an additional \$771K. Process improvements have been put in the place. The issue had not been identified by the external auditors.

ACTION / RECOMMENDATION

THAT the Finance Committee note the information provided on the reserve balances at 30 June 2021 and the 2020/21 preliminary operating result.

MOVED: Councillor S Ring

SECONDED: Councillor W McAndrew

5.6. Cashflow Report - August 2021

August was a cashflow positive month, as was anticipated. No unexpected issues arose with cashflow during the month of August 2021.

In August 2021, cash inflows exceeded cash outflows (excluding funds transfers) by \$5.054M

Cash outflows of \$5.133M were higher than an average month with a 2020/21 Fish River supply payment of \$874K to WaterNSW, \$247K for Upper Macquarie County Council annual contribution and payments for capital works projects.

ACTION / RECOMMENDATION

THAT the Finance Committee note the cashflow report for August 2021 and the progress of remedial actions being implemented to manage ongoing cashflow issues.

MOVED: Councillor S Ring

SECONDED: Councillor W McAndrew

5.7. Investment Report August 2021

Cashflow report is consistent with the Investment Report. Cash and investments increased for the month of August.

Council has sufficient cash and investments to fund the externally restricted reserve balances.

A plan is in place to return \$2.5M to the depleted Land Bank internally restricted reserve over three years from 2021/22 (approx. \$825K p.a.). This requires the reallocation of funds from discretionary capital works projects to internal reserves in annual budgets over three years. The plan will commence with the return of \$825K to internal reserves in the 2021/22 year.

ACTION / RECOMMENDATION

THAT:

1. Investments of \$30,844,593 and cash of \$1,148,626 for the period ending 31 August 2021 be noted.
2. The enclosed certificate of the Responsible Accounting Officer be noted.
3. The commentary on funding requirements for restricted reserves be noted.

MOVED: Councillor W McAndrew

SECONDED: Councillor S Ring

6. General Business

1. Store Stocktake - Where are we up to with resolving the stocktake variance and control issues at the Storer?

CFIO reported that the stocktake variance has been allocated between IS Recreation and W&WW. There is a report to the next ARIC meeting which will also be provided to Councillors.

Most of the control improvements are already in place. We are still working on a few controls such as more relief coverage for the store.

2. Procurement – the Mayor made an enquiry in relation to local procurement after he had a local electrician ask him about local electrical work being done by Bathurst electricians. The CFIO will seek advice from W&WW.

With the Local procurement policy being adopted we are rolling that out for new tenders before updating procedures for lower value procurement..

7. Meeting Close

Next Meeting: TBA

There being no further business the Chairperson declared the meeting closed at 5.21 pm.