



MINUTES

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

held at

Council Administration Centre
Committee Room
180 Mort Street, Lithgow

on

Tuesday 26 October 2021

at 10:00 AM

ORDER OF BUSINESS

1. Acknowledgement of Country	3
2. Apologies	3
3. Attendees	3
4. Confirmation of Minutes/Business Arising from Previous Minutes	3
5. Agenda Reports	4
5.1. Store stocktake - control issues	4
5.2. ARIC Annual Report 2021	5
5.3. 2020/21 Financial Statements	5
5.4. 2020/21 Interim Audit Management Letter	6
5.5. New Risk Management & Internal Audit Framework	7
5.6. Central Coast Council Inquiry	8
6. General Business	8
7. Meeting Close	9

The Chairperson declared the meeting open at 10.00am

1. Acknowledgement of Country

The Chair acknowledged the traditional custodians of this land we are on here today, and paid respect to their elders both past, present and emerging.

2. Apologies

NIL

3. Attendees

Voting	
Neil Maltby	Independent Member & Chair
Phillip Burgett	Independent Member
Phil Ross	Independent Member
Ray Thompson, Councillor	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
Neil Derwent, Financial Services Manager	Lithgow City Council
Gabriel Fanople	Crowe (External Audit Agent)
Chariee Bultitude, Director	Audit Office

4. Confirmation of Minutes/Business Arising from Previous Minutes

The Committee discussed the minutes from the last meeting and followed up on items that were to be distributed to the independent members.

CFIO was to circulate the final report in relation to the Records Management Audit. CFIO confirmed that this was circulated.

CFIO was to send through the scope from the Drinking Water Internal Audit to the committee, CFIO will request a progress report in relation to this item.

Institute of Internal Auditors ARIC workshop - CFIO was providing discussion papers to the independent members, CFIO confirmed that this was circulated.

CFIO advised that JLT have completed a risk assessment and will distribute the final report to the members. Fraud Risk Assessment actions have been added to the audit action list.

The minutes were endorsed by two members of the Committee being:

- Phil Burgett
- Phil Ross

ACTION

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

MOVED: Phil Burgett

SECONDED: Phil Ross

5. Agenda Reports

5.1. Store stocktake - control issues

Issues were identified with the stocktake at the Council store at the end of financial year.

There was a significant variance found of \$94,000 and an investigation was undertaken. The investigation found that items were not booked out correctly and items were taken for works projects. There was no evidence of theft.

The stock variance was costed between Infrastructure Services and Water and Waste water which reduced the unknown variance to \$9,000.

Controls have been strengthened and the Committee were provided with a list of actions that have been put in place.

We are also awaiting the construction of the new store which will have computerised inventory systems with barcodes and software. A tender has been accepted however it is unlikely that it will be completed until August 2022.

The GM suggested that the audit process was effective as it highlighted an area of concern but we have investigated, looked at the underlying causes, changed processes and documented it and now periodically audit compliance.

It was suggested that if it was found that specific items were identified as part of the stocktake variance, periodic stocktakes could occur on those items rather than just once a year until Council is sure that the control improvements implemented are working efficiently. Additionally, the quantity of items that we hold in the store could be reviewed.

The GM advised that we have implemented a calendar that identifies time critical matters and a periodic audit could be scheduled into the calendar.

ACTION / RECOMMENDATION

THAT the Committee note the control issues identified in the Stores stocktake and the action taken to strengthen Store controls.

MOVED: Phil Burgett

SECONDED: Neil Maltby

5.2. ARIC Annual Report 2021

The Annual report was presented to the Committee for endorsement by the independent members of the committee.

CFIO did a separate report for Lithgow, however, did send a copy of the final report to Oberon Council in case they wanted to prepare their own.

The Annual report will be reported to Council along with the minutes from this meeting.

ACTION / RECOMMENDATION

THAT the Lithgow Council ARIC 2021 Annual Report be endorsed for presentation to Council.

MOVED: Phil Ross

SECONDED: Phil Burgett

5.3. 2020/21 Financial Statements

CFIO advised that the audit is not yet complete, however, we are not anticipating any major changes to the statements. We have requested an extension to lodge which has been approved and we now have until 16th November to lodge the statements which will just give us time to meet the legislative requirements and report to Council.

CFIO provided information in relation to the income statement in the report. There was an issue regarding the Council portion of the pensioner concession, for the past two years they have been in council's debtors on the balance sheet but not taken up as an offset to income. This error occurred following a change in staff and loss of knowledge.

Committee member Phil Burgett queried why the \$4M line of credit was not mentioned as a subsequent event? Financial Services Manager stated that no action had been taken on the line credit yet.

With regards to Page 16 - sewerage services - 7.37M up from 470K - what happened there? CFIO and the Finance Manager advised that this is a correction to the classification. Previously, sewerage annual charges had been reported in special rates which were then included as rates in the Financial Data Return and subsequently distorted Council's average rate reporting by the OLG.

Phil Ross asked why the Audit fees were up from \$46K to \$95K. CFIO advised that we needed to correct that amount to 79K, we had a \$20,000 additional cost invoice for the previous year because of additional work and an extended audit.

Committee member, Phil Ross asked for comment on Internal restrictions being lower. CFIO informed the Committee that Council has resolved to set the Internal restriction balances at the July meeting. The decline in internal restrictions has regularly been reported to Council, the Finance Committee and the ARIC following cashflow issues and the inadvertent use of the internal restrictions to fund operations. We have put in place a number of actions, including the \$4million line of credit, as well as having a balanced cash budget which should return a cash surplus this financial year. There are particular impacts on the lands bank funds that had been built, it was the one discretionary reserve that has been heavily impacted along with the plant and vehicle replacement reserve being exhausted and needing to be rebuilt. We have a plan for this year for plant replacement and we are using revenue funding for this financial year.

We have had to set aside an extra \$5 million for external restrictions.

Phil Ross asked for an explanation on the improvement to the Asset Maintenance Ratio - CFIO explained that this was due to the amount of grant funding available in the past year, including the Local Roads and Community infrastructure grant which Council can use for maintenance projects as well as asset renewal. We focused much of the grant on asset maintenance and that helped us to achieve the benchmark for the first time.

There isn't a dedicated staff resource for grant applications and we have used consultants for some grant applications. We have however established a specialist project management team within Infrastructure Services and to some extent the team is funded from Grants.

Gabriel Fanople provided an update to the Committee on progress of the Audit indicating that it is progressing well. Additional information has been provided and the Auditors are tracking well.

Chariee Bultitude commented on the disclosure of the restricted assets in the financial statements. The local government accounting code has changed so it is not necessary to show the breakdown where it has the unrestricted component at the top of the note. The table is not required to be disclosed. If Council do wish to leave that small table in as part of the note, then you may need to consider adding some going concern wording in there. This is something coming through on a number of Council financial statements. CFIO will consider, usually Council has a nil reported unrestricted because we haven't had a specific working capital fund.

The OLG have made a number of changes to the reporting code as they are trying to declutter the statements. This is a timely exercise but they are pushing ahead with removing much content.

Chariee advised that there were limited numbers of Council's that were able to meet the 31 October deadline for the submission of statements and many have requested extensions. At this stage only 1/4 have submitted on time. There have been a number of challenges because of COVID, valuations and staffing issues.

ACTION

THAT the committee receive and note the draft 2020/21 financial statements.

MOVED: Steve Ring

SECONDED: Phil Burgett

5.4. 2020/21 Interim Audit Management Letter

This was provided to the Committee as it was not received until early August.

There were five issues identified some of which we were able to rectify immediately and others that were added to the Audit Action List with due dates.

There were 4 moderate and 1 low risk item identified.

The Finance Manager provided an explanation on the process for updating the revenue master file. This is an annual task but the recommendation is that it is audited more frequently.

The Contracts register is maintained by the Purchasing Coordinator.

What is the definition of a verified supplier? At this stage all new supplier requests and changes to bank details go via the EFTSure system and they verify the details to reduce the risk of fraud or scams where we might have fake invoices or fraudulently changing account details for real contracts.

We are encouraging BPoint payments to try to limit the amount of people paying into Council's bank account and then having unallocated payments.

ACTION

THAT the 2020/21 interim audit management letter be noted by the Committee.

MOVED: Phil Ross

SECONDED: Phil Burgett

5.5. New Risk Management & Internal Audit Framework

The OLG recently released the new guidelines. Council have already made a submission. A copy of the submission was provided to the Committee.

The Draft guidelines state that Councillor members are to be non-voting and the Mayor cannot be a member on the ARIC.

Phil Ross has reviewed the guidelines in depth and indicated that the OLG have based the guidelines on the State government and discussed his findings with the Committee. It appears that there is confusion around governance and management, the concept of independence in relation to the audit committees means independent from management, separating those charged with governance from participating is non-sensical. He indicated that his submission will be along those lines. Phil also found in his research that the references in the document are also outdated.

Phil indicated that his submission would support Council's submission relating to Councillors as voting members.

One of the good things in the guidelines is the checklist of all the areas that the Audit committee should cover. It highlights any short falls that we might have. It was suggested that someone within Council look over the guidelines and compare what the guidelines say we should be doing and what we are doing to identify gaps, selecting one particular section for each ARIC meeting.

CFIO will review the guideline checklist and add it to the agenda. The Committee also need to review the Committee Charter and the guidelines have mentioned having a model terms of reference and model charter so he will develop a new charter for the new council. This will also be dependent Oberon's plan for a Committee.

Council's submission made reference to the work previously done by Phil Ross which was very beneficial.

Lithgow's Council's ARIC is already fully compliant with the transitional provisions of the Act, which require the appointment of an ARIC prior to 4 June 2022.

ACTION / RECOMMENDATION

THAT the Committee:

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

3. Examine the requirements in the guidelines over the next four ARIC meetings, check if the ARIC is in line with the requirements and identify any gaps.

MOVED: Steve Ring

SECONDED: Phil Burgett

5.6. Central Coast Council Inquiry

Committee member Phil Ross provided an overview of the issues at Central Coast Council.

In terms of their Audit/Risk Committee, there didn't seem to be a link between Council and the Audit/Risk Committee and was unsure whether the Councillors understood the role of the Committee. Unsure whether there was enough engagement between the Councillors and the Committee. Communication between Council and the Audit Risk Committee is imperative. The Annual Report is good, it not only reports back on the past year's activities but also makes the Committee accountable to the Council.

In terms of whether the Audit Committee should have picked up the issue around unrestricted funds, not a lot of Audit/Risk review restricted funds.

It is important for the Committee to receive quarterly updates in relation to Council performance against budget. It is important to keep this as a standing agenda item.

In summary, Phil Ross indicated that the two key areas for success of the Audit/Risk Committee is good communication between Councillors and the Committee and ensuring quarterly updates in relation to Council's performance against budget. He indicated that Lithgow Council is tracking well.

Chariee Bultitude commented that the Audit office was involved with the enquiries. Amalgamations and poor planning have played a party in many of the issues, as well as poor governance, lack of understanding of the role of governance, poor management reporting and budgeting. Also, not making sure that people are receiving the information they need to make the decisions. There are lessons to be learnt.

The Committee anticipate that there will be further changes to the Audit/Risk Management Guidelines before they are finalised next year.

ACTION / RECOMMENDATION

THAT the Committee note the verbal update on the Central Coast Council inquiry provided by Committee member Dr Philip Ross.

MOVED: Steve Ring

SECONDED: Phil Burgett

6. General Business

2022 Audit/Risk Committee

The first meeting of the new Council term will be held no later than March 2022.

The Committee extended their gratitude once again to Phil Burgett for his contribution to the meeting.

7. Meeting Close

Next Meeting: TBA - March 2022

There being no further business the Chairperson declared the meeting closed at 11.24am.