



# **AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING**

**14 September 2022**

## Meeting Notice

**The Audit, Risk and Improvement Committee Meeting  
of Central Coast Council  
will be held in the Wyong Committee Room,  
2 Hely Street Wyong  
on Wednesday 14 September 2022 at 2.00pm  
for the transaction of the business listed below:**

Note: It was resolved at the 14 September 2022 meeting (please refer to the minutes) that items 3.1, 3.2, 4.2, 5.2, 6.4, 7.1 and 8.1 were not to be publicly released in accordance with the ARIC Charter. Whilst they are listed in the table of contents, the reports have been removed from the Business Paper.

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### Confidential Items

- 5.2 NSW Audit Office Engagement Plan for year ended 30 June 2022
- 6.4 Update on Legal Matters

Please note item numbers correspond to items as they appear on the agenda (see pages 3-4).

**1 Introduction – 2pm**

1.1	Acknowledgement of Country, apologies and welcome	Verbal	ARIC Chairperson
1.2	Appointment of and welcome to new member	Verbal	ARIC Chairperson
1.3	Disclosures of Interest	Report	ARIC Chairperson
1.4	Confirmation of previous ARIC meeting minutes	Report	ARIC Chairperson
1.5	Outstanding action items	Report	ARIC Chairperson
1.6	Council's current status	Verbal	Chief Executive Officer

**2 Financial Management and External Accountability – 2:20pm**

2.1	General Finance update (standing item)	Report	Group Financial Controller
2.2	Draft Financial Statements for the period 1 July 2021 to 30 June 2022	Report	Group Financial Controller

**3 Risk Management – 2:50pm**

3.1	Enterprise Risk Management Report (standing item)	Report	Enterprise Risk Manager
3.2	Minutes of the Risk Management Committee meeting 10 August 2022	Report	Enterprise Risk Manager

**4 Internal Audit – 3.00pm**

4.1	Internal Audit Annual Work Plan	Report	Director – Centium / Unit Manager Governance, Risk and Legal
4.2	Internal Audit Report – Cyber Security Health Check	Report	Director – Centium / Unit Manager Governance, Risk and Legal
4.3	Internal Audit Report - DRIVES	Report	Director – Centium / Unit Manager Governance, Risk and Legal
4.4	Self-Insurer Regulatory Authority Claims Management	Report	Director – Centium / Unit Manager Governance, Risk and Legal

**5 External Audit – 3:30pm**

5.1	NSW Auditor-General's Local Government Report 2021	Report	NSW Audit Office
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5.2	NSW Audit Office Engagement Plan for year ended 30 June 2022	Confidential Report	NSW Audit Office
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## 6 Governance and Legislative Compliance – 3:50pm

6.1	Governance Lighthouse report review and update as at 30 June 2022	Report	Unit Manager Governance, Risk and Legal
6.2	Governance workplan 2022-23	Report	Unit Manager Governance, Risk and Legal
6.3	Integrated planning and reporting activities for 2022-23	Report	Unit Manager Strategic Planning
6.4	Update on legal matters (standing item)	Confidential Report	Unit Manager Governance, Risk and Legal

## 7 Control Framework – 4:30pm

7.1	Report from the Office of the Internal Ombudsman	Report	Senior Internal Ombudsman
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## 8 Performance and Continuous Improvement – 4:40pm

8.1	Work, Health and Safety Update	Report	Unit Manager People and Culture
8.2	Service Reviews	Report	Unit Manager Communications, Marketing and Customer Engagement

## 9 General Business – 4:50pm

9.1	ARIC self-assessment survey	Verbal	Unit Manager Governance, Risk and Legal
9.2	ARIC membership pre-qualification scheme	Verbal	Unit Manager Governance, Risk and Legal





**Item No:** 1.1  
**Title:** Confirmation of Minutes of Previous Meeting  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/00030 - D15247361  
Author: Rachel Callachor, Meeting Support Officer Civic Support  
Manager: Edward Hock, Unit Manager Governance, Risk and Legal

### **Recommendation**

- 1 *That the Committee confirm the minutes of the previous meeting held on 8 June 2022.*
- 2 *That the Committee make a recommendation that this report and the supporting papers to this report be made publicly available as the nature or content of the report do not fall within any listed exceptions, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

*The information provided in this report is current as at 25/08/2022.*

### **Summary**

The purpose of this report is to confirm the minutes of the previous Audit, Risk and Improvement Committee meeting held on 8 June 2022.

The minutes from 8 June 2022 were circulated to all Audit, Risk and Improvement Committee members by email on 27 June 2022 and were reported to the 26 July 2022 Ordinary Council Meeting.

Council's *Audit Risk and Improvement Committee Charter* states that all supporting papers to the meeting agendas will be released to the public on Council's website, unless such release would be contrary to the public interest. It is considered that the nature or content of this report and attachments do not fall within any of the exceptions listed under Clause 78 of the Charter and release to the public be approved.

### **Attachments**

- 1 MINUTES - Audit, Risk and Improvement Committee - 8 June 2022 D15197322



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Central Coast Council  
Audit, Risk and Improvement  
Committee Meeting  
Held Online via Microsoft Teams / Wyong Committee Room

8 June 2022

## MINUTES

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### Present

Carl Millington (Chairperson)  
Arthur Butler  
Rik Hart

Independent member  
Independent member  
Administrator

### In Attendance

David Farmer  
Natalia Cowley  
Edward Hock  
Rachel Callachor  
Caroline Karakatsanis  
Rochele Antolin  
Penelope Corkill

Chief Executive Officer (CEO)  
Director Corporate Affairs and Chief Financial Officer  
Unit Manager Governance and Legal Counsel  
Meeting Support Officer  
Director, Financial Audit, Audit Office of NSW  
Audit Leader, Financial Audit, Audit Office of NSW  
Director Risk and Assurance, Centium, Internal Audit  
Partner

**Minutes of the Audit, Risk and Improvement Committee Meeting 8 June 2022 contd**

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**1 INTRODUCTION**

**Welcome, Acknowledgement of Country and Apologies**

The Chairperson, opened the meeting, welcomed attendees and completed an Acknowledgement of Country.

It was noted that the meeting was being recorded for minute taking purposes. By attending the meeting, speakers consented to an audio record of the meeting. Recording of the proceedings of this Committee meeting are not permitted without prior approval of the Council. The meeting recording will be deleted once the meeting minutes are finalised.

Apologies received:

Boris Bolgoff	Director Infrastructure Services
Jamie Loader	Director Water and Sewer
Lilly Mojsin	Senior Internal Ombudsman
Jade Maskiewicz	Assistant Internal Ombudsman

**1.2 Disclosures of Interest**

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**Resolution**

46/22(ARIC) *That the Committee note the standing declarations of current Committee members outlined in the table below.*

47/22(ARIC) *That the Committee make a recommendation that this report be made publicly available as the nature or content of the report do not fall within any listed exceptions pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

**1.3 Confirmation of Minutes of Previous Meeting**

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**Resolution**

48/22(ARIC) *The Committee confirmed the minutes of the previous meeting held on 9 March 2022 and that the meeting recording will be deleted following finalisation of the meeting minutes.*

49/22(ARIC) *The Committee recommended that this report and the supporting papers to this report be made publicly available as the nature or content of the report do not fall within any listed exceptions, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

**1.4 Outstanding Action Items**

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The Committee requested that quarterly reports be provided to ARIC with regards to the Council's Workplace Health and Safety (WHS) reporting.

**Minutes of the Audit, Risk and Improvement Committee Meeting 8 June 2022 contd**

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**Resolution**

50/22(ARIC) *That the Committee note the report on Outstanding Action Items.*

51/22(ARIC) *That the Committee make a recommendation that this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

**1.5 Council's current status**

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The Chief Executive Officer provided the Committee with an update on Council's current status including the following key areas of focus:

- Update regarding the Land and Environment Court proceedings between Verde Terra and Central Coast Council. It noted discussions regarding this matter are confidential but that the topic is within the public domain.
- The CEO and Director Environment and Planning recently addressed the Public Accounts Committee regarding a Performance Audit, undertaken by the Audit Office, into the management of Developer Contributions which was reported on in 2020. 13 findings were made, Council was able to demonstrate 11 of the 13 actions have been addressed, the other 2 actions are underway.
- Council is coming to the conclusion of the Annual Planning and Budget cycle. There were satisfactory outcomes from IPART in relation to Special Rate Variation (SRV) and Water and Sewer pricing determination, and certainty provided with both matters. Focus is now on performance standards and repairing and rebuilding the organisation and its performance to the Community.
- Council is performing considerably better than budgeted, income streams are stable and next year's budget projecting \$28 million surplus.

**Resolution**

52/22(ARIC) *The Committee noted the verbal update on Council's current status provided by the Chief Executive Officer.*

**2 FINANCE**

**2.1 General Finance Update**

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The Director Corporate Affairs and Chief Financial Officer, provided the Committee with a general update on financial matters, which included:

- Council estimates a surplus of \$70 million will be achieved for the year, \$25 million of which relates to property sales.
- The organisation now has certainty and validation regarding the Special Rate Variation (SRV) outcome to maintain the rate base increase for a further 7 years.

**Minutes of the Audit, Risk and Improvement Committee Meeting 8 June 2022 contd**

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This provides base for improvement with staff morale, and may provide options going forward in the recruitment space.

- Update provided regarding Finance unit staffing, specifically the Group Financial Controller position..
- Confirmation there will be some changes to the information contained in the Long Term Financial Plan (LTFP) and related documents, prior to adoption by Council, to align with the IPART Water and Sewer pricing determination.

In response to enquiries from the Committee regarding Investments reporting, the following information was provided:

- Confirmed Council has floating rate notes, as opposed to fixed.
- Investment strategy and decisions are made by Council and executed on Council's behalf by an independent external advisor.
- Discussion regarding investments, including A and AA ratings, as further detailed in the monthly Investment reports.
- Monthly Finance Reports and information provided are being refined and improved to encompass the presentation of key areas based on: Financial Strategy, Outstanding Loans, General Fund and Water and Sewer Fund.

In response to a query from the Committee regarding changes to Accounting Standards the Committee was advised of the changes required to accounting for Software as a Service (SaaS) compared to the previous approach to ownership and utilisation.

**Resolution**

53/221(ARIC) *That the Committee note the General Finance Update report including the Finance Report (April 2022), 2021-2022 Quarter 3 Review report and the Investment Report (April 2022) .*

54/222(ARIC) *That the Committee recommend that this report and the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

**3.1 Enterprise Risk Management Report - May 2022**

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Council's Enterprise Risk Manager provided an update at a briefing meeting prior to the formal ARIC meeting, in relation to this report and other issues.

It was agreed at that meeting that a Plan for future Risk updates would be developed.

**Resolution**

55/22(ARIC) *That the Committee note the report on Enterprise Risk Management Report - May 2022.*

**Minutes of the Audit, Risk and Improvement Committee Meeting 8 June 2022 contd**

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56/22(ARIC) *That the Committee recommend that this report is not made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter as it contains matters affecting the security of Council, Council Officials and Council property.*

**3.1 (a) Risk Committee Meeting Minutes 11 May 2022**

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**Recommendation**

57/22(ARIC) *That the Committee note the Minutes from the Risk Management Committee 11 May 2022*

58/22(ARIC) *That the Committee make a recommendation that this report and the supporting papers to this report not be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter as they contain matters affecting the security of Council, Councillors, Council staff or Council property.*

**4.1 Internal Audit - Consolidation of Management Actions Tracker**

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The report from Centium was considered and discussed by the Committee. Key points discussed included:

- The recommendation that the Management Actions Tracker cease tracking recommendations from external consultants reports, Internal Ombudsman's reports and recommendations that Council management did not agree with.
- Council's intention to manage the recommendations removed from the management actions Tracker through work and business plans.
- Dealing with situations where management disagreed with a recommendation and the process to follow before referring the matter to ARIC.
- Proposed presentation of information on tracked recommendations in future internal audit reports.

The Unit Manager Governance, Risk and Legal provided the Committee with an update in relation to the 2022/2023 Audit Plan and the internal audits planned.

**Resolution**

59/22(ARIC) *That the Committee endorse the report provided by Centium on the Review of 'Audit-Like' Recommendations.*

60/22(ARIC) *That the Committee agree to adopt the recommendations 1 to 10 in the Report.*

61/22(ARIC) *That the Committee note the discussions and additional information provided regarding the Audit Plans.*

62/22(ARIC) *That the Committee make a recommendation that this report and the*

**Minutes of the Audit, Risk and Improvement Committee Meeting 8 June 2022 contd**

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- 63/22(ARIC) *supporting papers to this report not be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter as on balance it would not be in the public interest to make this information available as Council does not disclose to the public any information from the NSW Audit Office to ensure the efficacy of its investigating, auditing, or reporting functions, some of which are raised in this report.*
- 63/22(ARIC) *That the Committee make a recommendation that this report and the supporting papers to this report not be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter as on balance it would not be in the public interest to make this information available as Council does not disclose to the public any information from the NSW Audit Office to ensure the efficacy of its investigating, auditing, or reporting functions, some of which are raised in this report.*

**5.1 Quarterly External Audit Report**

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NSW Audit Office provided a verbal update on changes to the external audit team, progress with planning for the 2022 interim audit and key areas of focus for the audit.

**Resolution**

- 63/22(ARIC) *That the Committee note the verbal update in relation to the Quarterly External Audit Report.*

**5.2 Audit Office Final Management Letter for Year Ended 30 June 2021**

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NSW Audit Office provided a high level overview of the information provided in the management letter arising from the audit for the year ended 30 June 2021. The Committee noted the number of issues raised and Council's commitment to addressing all issues in a timely manner.

**Resolution**

- 64/22(ARIC) *That the Committee note the Final Management Letter for Year Ended 30 June 2021 as at Attachment 1 to this report.*
- 65/22(ARIC) *That the Committee recommend that this report and the supporting papers to this report not be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter as*
- a) *they contain information about matters affecting the security of Council, Council Officials and/or Council property; and*
  - b) *as on balance it would not be in the public interest to make this information available as Council does not disclose to the public any information from the NSW Audit Office to ensure the efficacy of its investigating, auditing, or reporting functions*

**Minutes of the Audit, Risk and Improvement Committee Meeting 8 June 2022 contd**

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**6.1 Governance Lighthouse Report as at 31 March 2022**

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The Unit Manager Governance, Risk and Legal provided the Committee with an update to the report. The Committee discussed the report, including:

- Proposals to improve information provided and the compilation of the Governance Lighthouse report
- Alignment of the report with the Annual ARIC workplan
- Providing the Committee with an update on Service Level reviews at a future meeting.

**Resolution**

66/22(ARIC) *That the Committee note the Governance Lighthouse report as at 31 March 2022.*

67/22(ARIC) *The Committee requested that Council explore options to have this report further align with ARIC Workplan with an update be provided at the September 2022 meeting.*

68/22(ARIC) *That the Committee recommend that this report and the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

**6.2 Council's Insurance Arrangements (34/2022)**

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Unit Manager Governance, Risk and Legal updated the Committee on Council's self-insurance cover.

**Resolution**

69/22(ARIC) *That the Committee note the verbal update in relation to Council's self insurance arrangements.*

**6.3 Update on Legal Matters - CONFIDENTIAL**

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*Item 6.3 was brought forward ahead of item 3.1*

**Resolution**

72/22(ARIC) *That the Committee note the report on Update on Legal Matters.*

73/22(ARIC) *That the Committee recommend that this report not be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

- they may contain confidential advice or confidential communications concerning litigation or legal matters that may otherwise be privileged from production on the grounds of legal professional privilege.*
- further, on balance, it would not be in the public interest to make this information available as it may compromise Council's ability*



**Minutes of the Audit, Risk and Improvement Committee Meeting 8 June 2022 contd**

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*to ensure the optimum outcome for the community.*

**7 CONTROL FRAMEWORK**

**7.1 Report from the Office of the Internal Ombudsman**

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The Committee agree to hold any questions over until Internal Ombudsman staff are available. Any questions arising from the report will be addressed at the next ARIC Meeting.

**Resolution**

72/22(ARIC) *That the Committee note the report on Report from the Office of the Internal Ombudsman.*

73/22(ARIC) *That the Committee make a recommendation that this report not be made publicly available, pursuant to Clause 78(a) of the Audit, Risk and Improvement Committee Charter, as it contains personnel matters concerning particular individuals.*

**8 GENERAL BUSINESS**

**8.1 Update on Public Inquiry**

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Unit Manager Governance, Risk and Legal provided the Committee with a verbal update on the Public Inquiry. Key points included:

- All 8 recommendations made by the Commissioner are to be adopted by Council.
- Local Government Elections for the Central Coast LGA will be held in September 2024, continuing the period of Administration for the Council until such time.

**Resolution**

74/22(ARIC) *That the Committee note the verbal update in relation to the Outcome of the Public Inquiry.*

**8.2 Update on ARIC Independent Member recruitment, ARIC Performance review and Meeting cycle**

**Resolution**

75/22(ARIC) *That the Committee note the verbal update in relation to update on the recruitment of an ARIC independent committee member.*

76/22(ARIC) *That the Committee note a review of the Audit, Risk and Improvement Committee will be considered and undertaken in due course, as per the ARIC Charter.*

**Minutes of the Audit, Risk and Improvement Committee Meeting 8 June 2022 contd**

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Chair Carl Millington recognised Director Corporate Affairs and Chief Financial Officer Natalia Cowley as this was the final ARIC meeting before her employment with Central Coast Council concludes.

The Chair congratulated and thanked Natalia for her contributions and efforts in helping Council onto a stable footing during her time with the organisation, highlighting Natalia's forthright nature and ability to both provide information to, and challenge, ARIC as being beneficial to the whole process.

**The Meeting** closed at 4:01pm.

**Next Meeting**                      Wednesday 14 September 2022, 2pm – 5pm,  
Wyong Committee Room



**Item No:** 1.2  
**Title:** Outstanding Action Items  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/00030 - D15247362  
Author: Rachel Callachor, Meeting Support Officer Civic Support  
Manager: Edward Hock, Unit Manager Governance, Risk and Legal

### **Recommendation**

- 1 *That the Committee note the report on Outstanding Action Items.*
- 2 *That the Committee make a recommendation that this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

*The information provided in this report is current as at 2/09/2022.*

### **Summary**

A review of the Outstanding Action Items from previous meetings.

**Green = completed items;**  
**Blue = on agenda for 14 September 2022 meeting;**  
**White = still pending (not overdue); and**  
**Red = overdue**

In summary there are:

9 Actions

- 3 Actions are ongoing
- 2 Actions have been completed
- 1 Actions are not yet completed and are not overdue
- 0 Actions are not yet completed and overdue
- 3 Actions will be completed as a result of being on the agenda for this meeting

Item	Meeting Date	Action	Responsible Officer	Status
22/2021(ARIC)	10/03/2021	The Committee requested they be provided with copies of Council's monthly Financial reporting to the Office of Local Government.	Group Financial Controller, Finance	ONGOING  Statements provided to members, as made available by Group Financial Controller, Finance
60/2021(ARIC)	24/06/2021	The Committee resolved that a cyber security audit should be undertaken for the IT element of the 2021/22 work program.	Chief Internal Auditor	Audit is currently underway, as per update to 9 March 2022 meeting.
107/2021(ARIC)	14/09/2021	The Committee requested that in regard to Issue 2 – Framework and documentation outlining the Council's understanding of restrictions, that the policy document and tracking spreadsheet be presented to the next ARIC meeting after they are available.	Group Financial Controller, Finance	ONGOING  The policy document and tracking spreadsheet be presented to the next ARIC meeting after they are available.
34/2022(ARIC)	9/3/2022	The Committee requested an update be provided at the June 2022 meeting on Council's Self Insurance arrangements regarding Public Liability Cover.	Unit Manager Governance, Risk and Legal	Reported to the 8 June 2022 meeting. Action is considered complete.

## 1.2

## Outstanding Action Items (contd)

Item	Meeting Date	Action	Responsible Officer	Status
35/2022(ARIC)	8/03/2022	The Committee requested a further report be provided to the September 2022 meeting including a table outlining what the level of cover and premium was last time and what it is this time.	Unit Manager Governance, Risk and Legal	ONGOING
44/2022(ARIC)	9/03/2022	The Committee requested that an update on the Modern Slavery Act 2018 be provided at the June 2022 meeting.	Senior Internal Ombudsman	Update provided via Briefing Note, June 2022. Action is considered complete.
N/A	8/06/2022	Work, Health and Safety report to be provided to each quarterly ARIC meeting.	Unit Manager People and Culture	ONGOING  Noted for future meetings and included on agenda for 14 September 2022 meeting.
67/22(ARIC)	8/06/2022	The Committee requested that Council explore options to have this report further align with ARIC Workplan with an update be provided at the September 2022 meeting.	Unit Manager, Governance, Risk and Legal	Included on agenda for 14 September 2022 meeting.
76/22(ARIC)	8/06/2022	That the Committee note a review of the Audit, Risk and Improvement Committee will be considered and undertaken in due course, as per the ARIC Charter	Unit Manager Governance, Risk and Legal	Included on Agenda for 14 September 2022 meeting

**Attachments**

Nil



**Item No:** 1.3  
**Title:** Disclosures of Interest  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/00030 - D15247363

### **Recommendation**

- 1 *That the Committee note the standing declarations of current Committee members outlined in the table below.*
- 2 *That the Committee now disclose any conflicts of interest in matters under consideration by the Committee at this meeting.*
- 3 *That the Committee make a recommendation that this report be made publicly available as the nature or content of the report do not fall within any listed exceptions pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

### **Report Purpose**

Chapter 14 of the *Local Government Act 1993* ("LG Act") regulates the way in which the Councillors and relevant staff of Council conduct themselves to ensure that there is no conflict between their private interests and their public functions.

Section 451 of the LG Act states in part that:

- (1) *A councillor or a member of a council committee who has a pecuniary interest in any matter with which the council is concerned and who is present at a meeting of the council or committee at which the matter is being considered must disclose the nature of the interest to the meeting as soon as practicable.*
- (2) *The councillor or member must not be present at, or in sight of, the meeting of the council or committee:*
  - (a) *at any time during which the matter is being considered or discussed by the council or committee, or*
  - (b) *at any time during which the council or committee is voting on any question in relation to the matter.*
- (3) *For the removal of doubt, a councillor or a member of a council committee is not prevented by this section from being present at and taking part in a meeting at which a matter is being considered, or from voting on the matter, merely because*

### 1.3 Disclosures of Interest (contd)

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*the Councillor or member has an interest in the matter of a kind referred to in section 448.*

Further, the [Code of Conduct](#) adopted by Council applies to all Councillors and Staff. The Code relevantly provides that if a Councillor or Staff member has a non-pecuniary conflict of interest, the nature of the conflict must be disclosed as well as providing for a number of ways in which a non-pecuniary conflict of interests might be managed.

#### **Committee Members standing declarations**

<b>ARIC Member</b>	<b>Meeting Date</b>	<b>Disclosure of Interest</b>
Carl Millington	13 July 2021 (noted outside of meeting)	Less than significant non-pecuniary interest as an Independent member on Randwick City Council Audit, Risk and Improvement Committee.
Arthur Butler	24 June 2021	Less than significant non-pecuniary interest as a member of the Audit, Risk and Improvement Committee for the Hunter and Central Coast Development Corporation.

#### **Attachments**

Nil



**Item No:** 2.1  
**Title:** General Finance Update  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2020/03205 - D15066214  
Author: Mellissa McKee, Financial Controller  
Executive: David Farmer, Chief Executive Officer

### **Recommendation**

- 1 *That the Committee note the report on General Finance Update.*
- 2 *That the Committee recommend that this report and the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

*The information provided in this report is current as at 23/08/2022.*

### **Summary**

This report presents the summary position of Council's Financial performance and position for the financial year-to-date 31 July 2022.

### **Attachments**

- |   |                                  |           |
|---|----------------------------------|-----------|
| 1 | Monthly Finance Report July 2022 | D15149881 |
| 2 | Investment Report July 2022      | D15288973 |



## AMENDED REPORT

**Item No:** 2.1  
**Title:** Monthly Finance Report July 2022  
**Department:** Corporate Services

23 August 2022 Ordinary Council Meeting

Reference: F2020/03205 - D15149881  
Author: Peter Correy, Group Financial Controller, Finance  
Executive: David Farmer, Chief Executive Officer



### Recommendation

- 1 That Council receive the report Monthly Financial reports – July 2022.**
- 2 That council adopt \$2.6M income and expense budgets for essential public asset reconstruction works funded by Transport for NSW for flood recovery works.**
- 3 That Council adopt amendments to the 2022-23 Capital Works Program detailed in Attachment 9.**

### Report purpose

To present to Council the monthly financial reports for July 2022.

### Executive Summary

This report presents the July 2022 monthly financial reports for Central Coast Council.

### Background

The monthly financial reports have been prepared in accordance with the requirements of the *Local Government Act 1993* ("LG Act"), the *Local Government (General) Regulation 2005* ("LG Reg"), and the relevant accounting and reporting requirements of the Office of Local Government prescribed Code of Accounting Practice and Financial Reporting and Australian Accounting Standards. background should include relevant previous resolutions or legislation that is relevant.

### Report

The reports disclose the year-to-date financial results in Operating Statement format, they reflect the organisational structure and are presented by Department and Unit. The reports include a traffic light indicator of current status – on track (green light), off track (red light) continue to monitor status (orange light). Relevant supporting comments are included, as well as a graphical representation of the financial results.

**2.1 Monthly Finance Report July 2022 (contd)**

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The Local Government Code of Accounting Practice and Financial Reporting (Guidelines) require Council to recognise rates income at the beginning of the financial year when levied. However, for internal reporting purposes Council recognises rates revenue on a continual basis throughout the financial year thereby aligning revenue with Council's expenditure for the delivery of services to the community.

**Consultation**

In the preparation and finalisation of the monthly reports for June 2022, all business areas of Council contributed to the information contained within the financial reports.

**Financial Considerations**

At its meeting held 19 October 2020, Council resolved the following:

*1108/20 That any motions put before Council for the remainder of this term of Council that have financial implications require the Chief Executive Officer to provide a report on how those additional costs will be met.*

The following statement is provided in response to this resolution of Council.

**Trading Results**

The attached financial reports record actual revenue and expenditure tracking against the initial budget of Council for the reporting period July 2022.

In July, Council is reporting an operating result deficit, excluding capital income of \$0.4M (favourable to budget by \$4.8M). This result includes \$1.4M in unrealised gains on Council's investments. These investments will be held to maturity such that any unrealised gain or loss will reverse over time. Materials and services are \$3.1M lower than budget and will either represent actual savings or the timing of recognising the expenditure. This will become clearer during August.

In July, Council's has reported a net operating result including capital income of \$1.1M (favourable to budget by \$3.2M).

2.1 Monthly Finance Report July 2022 (contd)

	CURRENT MONTH			YEAR TO DATE				FULL YEAR		
	Actuals	Adopted Budget	Variance	Actuals	Adopted Budget	Variance	Last Year YTD Actuals	Last Year Actual	Original Budget	Year End Forecast
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Operating Income</b>										
Rates and Annual Charges	26,736	26,165	570	26,736	26,165	570	26,196	366,030	390,335	390,335
User Charges and Fees	11,358	11,325	33	11,358	11,325	33	10,169	142,586	145,542	145,542
Other Revenue	2,010	573	1,437	2,010	573	1,437	455	12,854	9,666	9,666
Interest	991	402	589	991	402	589	1,006	5,470	4,890	4,890
Grants and Contributions	432	524	(92)	432	524	(92)	247	47,439	34,046	36,690
Gain on Disposal	1,034	1,100	(66)	1,034	1,100	(66)	-	26,056	5,294	5,294
Other Income	426	616	(190)	426	616	(190)	666	7,909	7,917	7,917
Internal Revenue	4,729	4,771	(41)	4,729	4,771	(41)	5,218	68,662	58,441	58,441
<b>Total Income attributable to Operations</b>	<b>47,715</b>	<b>45,476</b>	<b>2,240</b>	<b>47,715</b>	<b>45,476</b>	<b>2,240</b>	<b>43,957</b>	<b>677,007</b>	<b>656,131</b>	<b>658,775</b>
<b>Operating Expenses</b>										
Employee Costs	11,722	11,869	148	11,722	11,869	148	10,091	162,828	180,750	180,750
Borrowing Costs	821	868	47	821	868	47	958	12,788	11,421	11,421
Materials and Services	15,793	18,903	3,111	15,793	18,903	3,111	12,653	172,867	205,479	208,123
Depreciation and Amortisation	12,137	12,137	-	12,137	12,137	-	12,767	161,543	158,781	158,781
Other Expenses	3,390	3,063	(326)	3,390	3,063	(326)	2,672	50,717	38,252	38,252
Loss on Disposal	-	-	-	-	-	-	-	3,509	-	-
Internal Expenses	4,291	3,870	(422)	4,291	3,870	(422)	4,932	59,947	51,691	51,691
<b>Total Expenses attributable to Operations</b>	<b>48,153</b>	<b>50,710</b>	<b>2,557</b>	<b>48,153</b>	<b>50,710</b>	<b>2,557</b>	<b>44,073</b>	<b>624,198</b>	<b>646,373</b>	<b>649,017</b>
<b>Operating Result after Overheads and before Capital Amounts</b>	<b>(438)</b>	<b>(5,235)</b>	<b>4,797</b>	<b>(438)</b>	<b>(5,235)</b>	<b>4,797</b>	<b>(116)</b>	<b>52,809</b>	<b>9,758</b>	<b>9,758</b>
Capital Grants	788	1,457	(669)	788	1,457	(669)	857	34,544	55,740	55,740
Capital Contributions	701	1,679	(977)	701	1,679	(977)	711	25,653	20,143	20,143
<b>Grants and Contributions Capital Received</b>	<b>1,490</b>	<b>3,136</b>	<b>(1,646)</b>	<b>1,490</b>	<b>3,136</b>	<b>(1,646)</b>	<b>1,568</b>	<b>60,197</b>	<b>75,883</b>	<b>75,883</b>
<b>Net Operating Result</b>	<b>1,052</b>	<b>(2,099)</b>	<b>3,151</b>	<b>1,052</b>	<b>(2,099)</b>	<b>3,151</b>	<b>1,452</b>	<b>113,006</b>	<b>85,640</b>	<b>85,640</b>

**Cash and Investments / External Borrowings**

Council held \$629.0M in cash and investments at 31 July 2022.

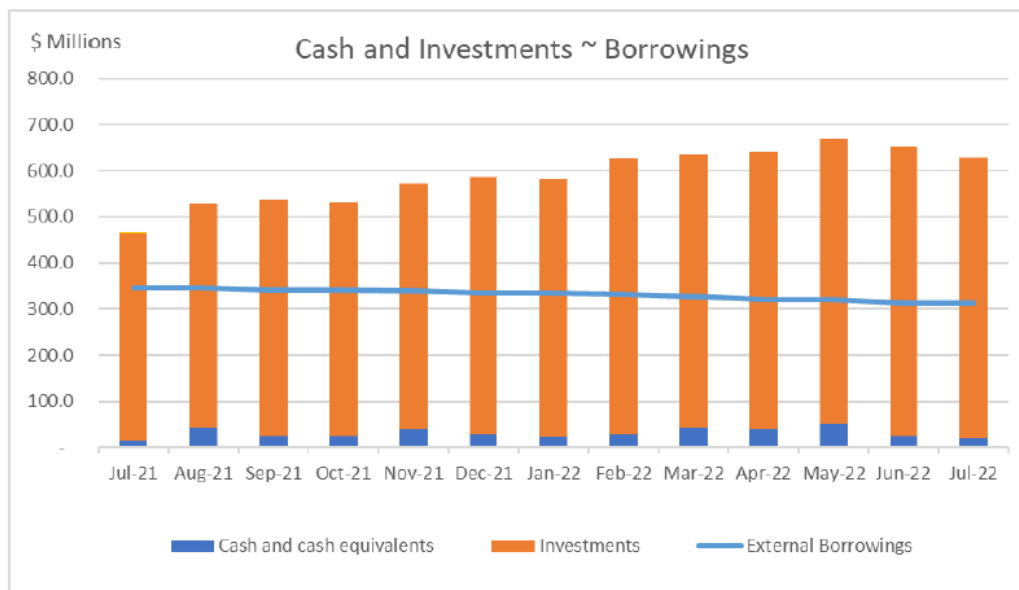
Detailed cash flows for the year ending 30 June 2023 are currently being prepared and will be included in the August Monthly Finance Report.

Council's Consolidated and General Fund full year cash flow summaries are tabled below.

2.1 Monthly Finance Report July 2022 (contd)

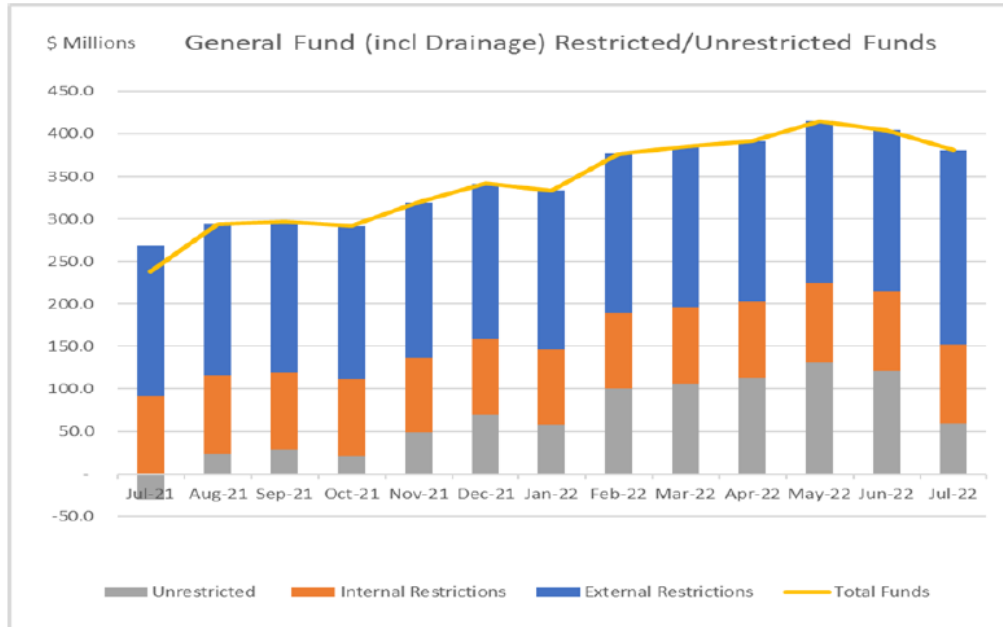
Annual Cashflow	Consolidated	General Fund
Opening cash & investments @ 1 July 2022	652,190	404,346
Income receipts (incl Capital grants & contributions)	726,530	426,948
Operational payments	(483,681)	(292,836)
<b>Net operating cash inflow / (outflow)</b>	<b>242,849</b>	<b>134,112</b>
Capital projects payments	(176,509)	(105,274)
Asset sales	24,940	24,940
Investing Activities	(50,000)	(50,000)
Financing repayments	(27,484)	(11,258)
<b>Total cash inflow / (outflow)</b>	<b>13,796</b>	<b>(7,480)</b>
Closing cash & investments @ 30 June 2023	<b>665,986</b>	<b>396,866</b>

External borrowings at 31 July were \$313.1M. During July, principal loan repayments of \$0.3M were repaid in line with the lending institutions loan repayments schedules.



2.1 Monthly Finance Report July 2022 (contd)

The General Fund unrestricted balance (inclusive of Council’s drainage fund) is currently \$94.0M and is available to meet the July 2022 unrestricted funds deficit in Council’s Water Fund of \$4.0M.



**Capital Works**

Council is reporting capital works expenditure for July 2022 of \$5.6M. Council currently has 100 active projects.

Minor adjustments to the Capital Works Program totalling \$0.1M are proposed and are detailed in Attachment 9.

**NSW Disaster Assistance for Public Asset Reconstruction Works**

Council has successfully submitted claims for essential reconstruction works in relation to the severe flooding events in March 2021 and February 2002. Transport for NSW has formally approved the funds and it is proposed to increase Council’s budget by \$2.6M income and expense to complete the following works:

- Essential Public Asset Reconstruction works flooding February 2022- \$2.1M
- Pemberton Hill Road Mangrove Mountain flooding March 2021- \$0.4M
- Wisemans Ferry Road Gunderman Culvert flooding March 2021- \$0.1M

2.1 Monthly Finance Report July 2022 (contd)

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**Link to Community Strategic Plan**

Theme 4: Responsible

**Goal G: Good governance and great partnerships**

R-G2: Communicate openly and honestly with the community to build a relationship based on transparency, understanding, trust and respect.

**Attachments**

1	Financial Performance - Monthly Finance Report July 2022	D15297560
2	Consolidated and By Fund July 2022 Monthly Financial Report	D15294851
3	Office of the Chief Executive Officer July 2022 Monthly Financial Report	D15294853
4	Community and Recreation Services July 2022 Monthly Financial Report	D15294854
5	Infrastructure Services July 2022 Monthly Financial Report	D15294856
6	Water and Sewer July 2022 Monthly Financial Report	D15294857
7	Environment and Planning July 2022 Monthly Financial Report	D15294858
8	Corporate Services July 2022 Monthly Financial Report	D15294860
9	Proposed Capital Budget adjustments	D15297504

**Item No:** 2.2  
**Title:** Investment Report for 31 July 2022  
**Department:** Corporate Services



23 August 2022 Ordinary Council Meeting

Reference: F2004/06604 - D15288973  
Author: Devini Susindran, Team Leader  
Manager: Mellissa McKee, Financial Controller  
Executive: David Farmer, Chief Executive Officer

### Recommendation

- 1 That Council note the Investment Report for July 2022.**
- 2 That Council note that internally restricted funds are unrestricted funds that have been internally allocated to a certain purpose.**
- 3 That Council allocate the required unrestricted funds available in the General Fund to meet its July 2022 unrestricted funds deficit of \$38.86M in Water and Drainage funds as set out in this report.**
- 4 That Council note the July Restrictions are draft only, subject to further amendment as part of finalisation of June 22 year end processes.**

### Report purpose

To present the monthly Investment Reports in accordance with cl. 212 of the *Local Government (General) Regulation 2005* which states as follows:

- 1 *The Responsible Accounting Officer of a Council*
  - a *must provide the council with a written report (setting out details of all money that the council has invested under section 625 of the Act) to be presented—*
    - i. *if only one ordinary meeting of the council is held in a month, at that meeting, or*
    - ii. *if more than one such meeting is held in a month, at whichever of those meetings the council by resolution determines, and*
  - b *must include in the report a certificate as to whether the investment has been made in accordance with the Act, the regulations and the council's investment policies.*
- 2 *The report must be made up to the last day of the month immediately preceding the meeting.*

2.2 Investment Report for 31 July 2022 (contd)

**Executive Summary**

This report details Council's investments at 31 July 2022.

**Background**

Council's investments are made in accordance with the Local Government Act 1993, Local Government (General) Regulation 2005, the Investment Policy adopted at the Ordinary Council Meeting on 28 June 2022, Ministerial Investment Order issued February 2011 and Division of Local Government (as it was then known) Investment Policy Guidelines published in May 2010.

**Current Status**

Council's current cash and investment portfolio totals \$629.02M at 31 July 2022.

**Council's Cash and Investment Portfolio by Source of Funds**

Source of Funds	Value (\$'000)
Investment Portfolio	609,524
Transactional accounts Per Bank Statement and cash in hand	19,497
<b>Total</b>	<b>629,021</b>

Council's Portfolio is held in separate funds by purpose and summarised as follows:

Fund	General Fund	Drainage Fund	Total General Fund	Water Fund	Sewer Fund	Domestic Waste Fund
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
External Restricted Funds	191,587	37,749	229,336	11,082	20,618	90,629
Internal Restricted Funds	92,762	20	92,782	908	877	47
<b>Total Restricted Funds</b>	<b>284,349</b>	<b>37,769</b>	<b>322,118</b>	<b>11,990</b>	<b>21,495</b>	<b>90,676</b>
Unrestricted Funds	93,967	(34,855)	59,112	(4,011)	113,205	14,435
<b>Total funds by Fund</b>	<b>378,316</b>	<b>2,914</b>	<b>381,230</b>	<b>7,979</b>	<b>134,700</b>	<b>105,111</b>

*Note: The above table consolidates General Fund and Drainage Fund. From 1 July 2026, Drainage Fund fees and charges will no longer be regulated by IPART and will become part of Council's General Fund. The table also contains interim values only as the financial statements for the year ending 30 June 2022 have not been finalised at the time of writing this report.*



**2.2 Investment Report for 31 July 2022 (contd)**

During July, Council's total cash and investments decreased by \$23.17M from \$652.19M to \$629.02M. The decrease during July was primarily due to supplier payments. Annual Rates were levied during the month, with first instalment due on 31 August 2022

Detailed restrictions have been provided in Attachment 2. Council is continuing to manage the reported negative unrestricted funds balances in the Water and Drainage Funds.

The negative unrestricted balance is currently \$38.87M, made up of unrestricted fund deficits in the Water and Drainage Funds, as per the table above.

The unrestricted funds balances above, across the five Funds will increase and decrease during each financial year as revenues are received and expenditures occur. In the interim, the unrestricted funds deficit of \$38.87M is proposed to be funded through the General Fund's available unrestricted cash balance of \$93.97M at 31 July 2022.

In 2026 Council's Drainage Fund will be consolidated into Council's General Fund as IPART will no longer regulate Stormwater Drainage prices.

**Portfolio management**

Council's Investment Portfolio is managed through term deposits, floating rate notes and bond maturities and placements.

Total net return on the portfolio for Council in July, comprising entirely of interest earned, was \$974k. The total value of the Council's investment portfolio at 31 July 2022 is outlined in Table 1 below.

**Table 1 – Portfolio movement Investment only**

Description	2021-22 Financial Year \$'000	Jul-22 2022-23 \$'000
<b>Opening Balance</b>	<b>447,221</b>	<b>628,005</b>
Movement in cash at call, additions and disposals	191,662	(19,985)
Movement in Market Value	(10,878)	1,504
<b>Closing Balance</b>	<b>628,005</b>	<b>609,524</b>
Interest earnings	5,660	974

The market value of Council's investment portfolio at 31 July 2022 is \$609.52M. Council's investments are evaluated and monitored against a benchmark appropriate to the risk (APRA Standards BBB long term or above) and time horizon of the investment concerned.

2.2 Investment Report for 31 July 2022 (contd)

A summary of the term deposit and floating rate notes maturities are listed in Table 2 below.

**Table 2 - Investment Maturities**

Time Horizon	Percentage Holdings	Maturity on or before	Value \$'000
<b>At Call</b>	3.43%	Immediate	20,892
<b>Investments</b>			
0 - 3 months	13.12%	Sep-2022	80,000
4 - 6 months	6.56%	Dec-2022	40,000
7 - 12 months	5.58%	Jun-2023	34,030
1 - 2 years	12.29%	Jun-2024	74,921
2 - 3 years	23.31%	Jun-2025	142,057
3 - 4 years	19.50%	Jun-2026	118,831
4 - 5 years	16.21%	Jun-2027	98,793
<b>Total Investments</b>	<b>96.57%</b>		<b>588,632</b>
<b>Total Portfolio</b>	<b>100.00%</b>		<b>609,524</b>
<b>Interest Accrued to 31 July 2022 (Excluding Interest on call accounts)</b>			2,168
<b>Market Value of Investment per Portfolio Valuation Report (Attachment 5)</b>			<b>611,692</b>

The investment portfolio is concentrated in AA above (20.46%), A (29.48%), and BBB (50.06%).

Council monitors and manages the portfolio taking into consideration credit ratings of financial institutions, interest rates offered for the maturity dates required and counterparty exposure. All of Council's investments were within policy guidelines at 31 July 2022.

The current spread of investments and counterparty exposure for July 2022 are shown in Graphs 1 and 2 respectively in Attachment 3.

**Environmental, Social and Green (ESG) Investments**

Council continues to look for 'ESG' investment opportunities subject to prevailing investment guidelines. A list of current ESG investments held is contained on the Investment listing at Attachment 1 and are highlighted in green.

Council currently holds 5.20% or \$31.67M in ESG investments as at 31 July 2022.

**Portfolio Return**

Interest rates on investments in the month, ranged from 0.55% to 3.25%. The monthly Bank Bill Swap Rate (BBSW) benchmark was 1.48%. Changes in economic conditions have led to the Reserve Bank of Australia (RBA) increasing its cash rate which was at a historic low of 0.10% until 4 May 2022 to 1.85% on 3 August 2022. BBSW has also followed this trend and has been increasing steadily. Comparative interest rates are shown in the table below.

2.2 Investment Report for 31 July 2022 (contd)

Month	RBA Cash Rate	1 Month Bank Accepted Bills
February 2022	0.10%	0.01%
March 2022	0.10%	0.03%
April 2022	0.10%	0.08%
May 2022	0.35%	0.39%
June 2022	0.85%	0.92%
July 2022	1.35%	1.48%
August 2022	1.85%	Will be available at month end

Source: RBA Statistics [Interest Rates and Yields – Money Market – Monthly – F1.1](#)

Investments are made within Council policy and at the best rates available at the time of placement. Due to interest rate movements outlined above, the following investments placed during or before April 2022 had earnings below the current monthly BBSW rate, listed in maturity date order.

Bank	Type of investment	Placement Date	Maturity Date	Value	Interest Rate
Members Equity Bank	Term Deposit	19 April 2022	3 August 2022	\$5,000,000	0.91%
Members Equity Bank	Term Deposit	19 April 2022	10 August 2022	\$5,000,000	0.91%
Judo Bank	Term Deposit	19 April 2022	17 August 2022	\$5,000,000	1.00%
Judo Bank	Term Deposit	19 April 2022	24 August 2022	\$5,000,000	1.00%
Auswide Bank	Term Deposit	1 March 2022	7 September 2022	\$5,000,000	0.80%
Members Equity Bank	Term Deposit	24 February 2022	22 September 2022	\$5,000,000	0.65%
Members Equity Bank	Term Deposit	24 February 2022	21 October 2022	\$5,000,000	0.65%
Westpac Banking Corporation	Term Deposit	25 February 2022	22 February 2023	\$10,000,000	0.88%
National Australia Bank	Term Deposit	25 February 2022	2 March 2023	\$5,000,000	0.88%
NSW Treasury Bond	Bond	21 November 2019	20 March 2025	\$2,000,000	1.25%
National Australia Bank	Term Deposit	16 June 2020	14 June 2024	\$10,000,000	1.15%
UBS Australia Limited	Bond	14 January 2021	30 July 2025	\$4,000,000	1.20%
Northern Territory Treasury Corporation	Bond	26 August 2021	15 December 2026	\$5,000,000	1.40%

Note: green shading indicates ESG investments

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2.2 Investment Report for 31 July 2022 (contd)

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The weighted running yield for July of 1.91% for Central Coast Council is favourable compared to the rolling three-year benchmark bank bill swap (BBSW) Index of 0.30% as shown in Graph 3 - Portfolio Returns in Attachment 3.

Market values reflected in the Portfolio valuation report in Attachment 5 have been used to record the unrecognised gains/(losses) in tradeable fixed rate bonds and floating rate notes. Interest accrued has been recorded separately and is not reflected in portfolio valuations.

**Financial Considerations**

At its meeting held 19 October 2020, Council resolved the following:

*1108/20 That any motions put before Council for the remainder of this term of Council that have financial implications require the Chief Executive Officer to provide a report on how those additional costs will be met.*

The following statement is provided in response to this resolution of Council.

Council's investment portfolio includes rolling maturity dates to ensure that Council has sufficient liquidity to meet its ongoing obligations.

**Certification:**

I hereby certify the investments summarised in the report have been made in accordance with section 625 of the Local Government Act 1993, clause 212 of the Local Government (General) Regulations 2021 and Council's investment policy

Peter Correy, Responsible Accounting Officer

**Link to Community Strategic Plan**

Theme 4: Responsible

**Goal G: Good governance and great partnerships**

R-G4: Serve the community by providing great customer experience, value for money and quality services.

**Attachments**

1	Summary of Investments as at 31 July 2022	Provided Under Separate Cover	D15289578
2	Summary of Restrictions as at 31 July 2022	Provided Under Separate Cover	D15289589

2.2 Investment Report for 31 July 2022 (contd)

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3	Investment Report for July 2022 - Graphs 1, 2 and 3	Provided Under Separate Cover	D15289590
4	Treasury Direct Trading Limits Report as at 31 July 2022	Provided Under Separate Cover	D15289593
5	Treasury Direct Portfolio Valuation Report as at 31 July 2022	Provided Under Separate Cover	D15289600



**Item No:** 2.2  
**Title:** Draft Financial Statements for the period 1 July 2021 to 30 June 2022  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2022/00467 - D15262100  
Author: Mellissa McKee, Financial Controller  
Michelle Best, Financial Controller  
Manager: Peter Correy, Group Financial Controller, Finance  
Executive: David Farmer, Chief Executive Officer

### **Recommendation**

- 1 *That the Committee note the report on Draft Financial Statements for the period 1 July 2021 to 30 June 2022.*
- 2 *That the Committee recommends that Council refer the draft 2021-2022 Consolidated Financial Statements for Central Coast Council that include General Purpose Financial Statements, Special Purpose Financial Statements and Special Schedules to audit.*
- 3 *That the Committee recommends that Council refer the 2021-2022 Central Coast Council Water Supply Authority General Purpose Financial Statements to audit.*
- 4 *That the Committee make a recommendation that this report and the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

*The information provided in this report is current as at 1/09/2022.*

### **Summary**

This report presents the draft 2021-2022 Consolidated Financial Statements for Central Coast Council, which cover the period from 1 July 2021 to 30 June 2022, including analysis of the financial position and financial performance for the reporting period.

### **Background**

The *Local Government Act 1993* ("LG Act") and the *Public Finance and Audit Act 1983* ("PF Act") require that Council prepare financial statements each year and refer them for audit. The requirement includes:

- Council form an opinion on the financial statements
- Council present its audited financial statements together with the external auditor's reports (scheduled to be presented to Council on 31 October 2022).

### **Adoption of financial statements**

The financial statements for the 2021-2022 reporting period are the formal record of the business performance of all Council activities and are prepared in accordance with accounting standards and legislative requirements for the period from 1 July 2021 to 30 June 2022.

Council is required to formally resolve to refer the draft financial statements to audit and then at a later date to formally present (to the Community) the final statements complete with the auditor's reports.

Council's external auditor, The Audit Office of New South Wales ("Audit Office") will sign-off and hand the formal audit opinion to Council. This is the standard practice and is in accordance with these requirements.

### **Current Status**

#### **Audit Status**

Council's audit planning processes for 2021-2022 commenced with the Audit Office of NSW at the beginning of May 2022 with business process walkthrough meetings held with staff across Council. The interim audit commenced on 14 June 2022 and progressed well. At the time of writing this report no formal report has been received on the outcomes of interim audit.

The final audit of Councils 2021-2022 Financial Statements is commencing on 12 September 2022.

Therefore the draft 2021-2022 consolidated Financial Statements do not yet include a formal audit report.

Once Council receives the formal audit opinion the financial statements will then be updated to include the audit opinions and notice of public meeting to be held in accordance with Section 418 (2) of the Local Government Act 1993, at which time Council can invite the external auditor, Caroline Karakatsanis of the Audit Office, or her delegate to formally present the report.

The draft 2021-2022 Financial Statements do not yet include the financial impact of asset revaluations. The following revaluations are to be completed and included in the Financial Statements:

- Open Space assets
- Operational land assets
- Building assets
- Water and sewer infrastructure assets

## **2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)**

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- Roads and drainage infrastructure assets

### **Analysis of Draft 2021-2022 Financial Statements**

This analysis provides an overview of the financial performance and the financial position of Central Coast Council for the reporting period from 1 July 2021 to 30 June 2022.

Key statements and notes detailed in this analysis include:

- Income Statement
- Statement of Financial Position
- Statement of Performance Measures (Note G5 to the financial statements)

Council's primary financial statements are in the format required by accounting standards and must conform to the provisions of the Local Government Code of Accounting Practice and Financial Reporting (Guidelines) issued by the Office of Local Government (OLG).

In this report the General Purpose Financial Statements, Special Purpose Financial Statements and Special Schedules for the consolidated entity are referred to as "Consolidated Financial Statements".

Council is required to publish in the Consolidated Financial Statements the 2021-2022 the original budget adopted by Council for 2021-2022, in line with the Local Government Code of Accounting Practice and Financial Reporting 2021/22 issued in January 2022. To provide context for the actual results for the reporting period, the tables in this report also reference the original budget for 2021-2022.

This report provides commentary on significant items in the financial statements for Central Coast Council.

Note that there may be some small rounding differences throughout this report as whole dollars are rounded to the nearest \$0.1M.

### **Consolidated Financial Statements**

The comparison of the financial performance for Central Coast Council in the 2021-2022 Financial Statements (1 July 2021 to 30 June 2022) is to the 2020-2021 financial year (1 July 2020 to 30 June 2021).

### **Operating Result**

The operating surplus before capital grants and contributions for the 2021-2022 financial year is \$47.3M. The operating result including capital grants and contributions of \$61.5M, is a surplus of \$108.8M. The operating result in 2021-2022 shows significant improvement of \$118.0M on the prior year. The operating result in 2020-2021 was adversely impacted by the organisational restructure.



**2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022  
(contd)**

	2021-2022 Actual \$'000	2020-2021 Actual \$'000
Income from operations	603,096	541,944
Expenditure from operations	555,749	612,635
<b>Operating result for continuing operations (excluding capital grants and contributions)</b>	<b>47,347</b>	<b>(70,691)</b>
Income from capital grants and contributions	61,450	83,702
<b>Net operating result (including capital grants and contributions)</b>	<b>108,797</b>	<b>13,011</b>

The below table compares the 2021-2022 actual results to the original budget adopted.

	2021-2022 Actual \$'000	2021-2022 Original Budget \$'000	Variance to Original Budget Favourable / (Unfavourable) \$'000
<b>Income Statement</b>			
Income from operations	603,096	573,325	29,771
Expenditure from operations	555,749	566,282	10,533
<b>Net operating result (excluding capital grants and contributions)</b>	<b>47,347</b>	<b>7,043</b>	<b>40,304</b>
Income from capital grants and contributions	61,450	42,890	18,560
<b>Net operating result (including capital grants and contributions)</b>	<b>108,797</b>	<b>49,933</b>	<b>58,864</b>

The variance between the actual net operating result (excluding capital grants and contributions) of \$47.3M surplus and the original budgeted net operating result (excluding capital grants and contributions) of \$7.0M surplus is a \$40.3M favourable variance driven by Council's financial recovery plan put in place in October 2020 that has been successfully executed and some external economic impacts and severe weather events.

The most significant factors that contributed to the favourable variance of \$40.3M include:

- Unbudgeted gain on disposal of surplus assets \$21.5M
- Depreciation underspend of \$15.1M due to the reduction in Council's capex program and due to delays incurred delivering the program
- Employee Costs underspend of \$13.0M due to difficulties encountered filling vacant positions.

## 2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)

### Income from Operations

The following table reports income by category and is followed by explanations relating to variations between actual income to the original budget.

	2021-2022 Actual \$'000	2021-2022 Original Budget \$'000	Variance to Original Budget Favourable / (Unfavourable) \$'000	Variance to Original Budget Favourable / (Unfavourable) %
<b>Income from Operations</b>				
Rates and Annual Charges	365,778	361,871	3,907	1.1%
User Charges and Fees	140,236	140,269	(33)	0.0%
Interest and Investment Revenue	7,117	4,442	2,675	60.2%
Other Revenues	12,743	9,196	3,547	38.6%
Grants and Contributions - Operating	47,715	49,491	(1,776)	(3.6%)
Grants and Contributions - Capital	61,450	42,890	18,560	43.3%
Other Income	8,024	8,056	(32)	(0.4%)
Net Gain from disposal of assets	21,483	-	21,483	n/a
<b>Total Income</b>	<b>664,546</b>	<b>616,215</b>	<b>48,331</b>	<b>7.8%</b>

#### *Rates and annual charges*

The favourable variance of \$3.9M is largely due to additional income received from Domestic Waste annual charges \$2.4M, Sewer Service availability charges \$2.8M, partially offset by unbudgeted pensioner rebate expense (\$1.1M).

#### *User charges and fees*

Although user charges and fees in total aligns with budget there were a number of material variations within the category including :

- Favourable variance in RMS user charges for works undertaken on State roads by Council \$2.8M
- Favourable variance in sewer usage, trade waste and miscellaneous water and sewer charges \$1.0M
- Favourable variance in development assessment income \$0.8M
- Favourable variance in Holiday Park and Camping Ground fees following lifting of COVID restrictions \$0.7M
- Favourable variance in Pool and Leisure Centre fees following lifting of COVID restrictions \$0.4M
- Unfavourable variance in tipping fees (\$0.9M)
- Unfavourable variance in water usage charges due to lower demand (\$5.0M).

## 2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)

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### *Interest and investment revenue*

The favourable variance of \$2.7M was due to higher investment portfolio balances during the year and higher RBA official cash rate \$2.0M and interest charged on overdue rates and annual charges \$0.7M.

### *Other revenue*

The favourable variance of \$3.5M is largely attributable to:

- Favourable variance in fines issues by Compliance Service's \$2.5M
- Favourable variance in sale of scrap metal and gas royalties at Council's Waste Management facilities \$1.1M
- One-off insurance recoveries \$0.8M
- Favourable variance in diesel fuel rebate \$0.2M.
- Unfavourable variance in forecast unrealised gains on investments (\$0.5M).

### *Grants and contributions - Operating*

The unfavourable variance of \$1.8M is largely attributable to:

- Favourable variance in prepaid Financial Assistance Grant (FAG) in May 2022 \$8.2M
- Unfavourable variance in Child Care operating grant income (\$0.3M)
- Unfavourable variance in employee car contributions due to a reduction in staff (\$0.6M)
- Unfavourable variance in forecast Bushfire and Environmental grant programs (\$3.3M)
- Unfavourable variance in bio-certification scheme contribution income not received (\$6.0M).

### *Grants and contributions - Capital*

The favourable variance of \$18.6M relates to:

- Additional capital grants for roads, bridges, water and sewer infrastructure and open space assets that were approved subsequent to the adoption of the original budget \$27.3M
- Additional income was also received and donated and developer contributed assets that were not included in the original budget forecast \$4.3M
- This was partially offset by lower than anticipated developer contributions received (\$13.1M).

### *Other Income*

Other income is in line with budget, with no material variations to original budget.

### *Net Gain from disposal of assets*

Favourable variance represents gain on disposal of surplus land and building parcels as part of Council's financial recovery plan that were not included in the original budget forecast.

## 2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)

### Expenditure from Operations

The following table reports expenditure by category and is followed by explanations relating to variations between actual expenses compared to the original budget.

	2021- 2022 Actual \$'000	2021- 2022 Original Budget \$'000	Variance to Original Budget Favourable / (Unfavourable) \$'000	Variance to Original Budget Favourable / (Unfavourable) %
<b>Expenditure from Operations</b>				
Employee benefits and on-costs	162,833	175,833	13,000	7.4%
Borrowing costs	14,581	17,471	2,890	16.5%
Materials and services	165,601	156,680	(8,921)	(5.7%)
Depreciation and amortisation	161,977	177,106	15,129	8.5%
Other expenses	50,757	39,192	(11,565)	(29.5%)
<b>Total Expenditure</b>	<b>555,749</b>	<b>566,282</b>	<b>10,533</b>	<b>1.9%</b>

#### *Employee costs*

Favourable variance of \$13.0M is primarily due to vacant positions across the organisation. In the current economic climate Council is experiencing difficulties filling vacant positions, as candidates often have several opportunities available to them. At the moment Australia does not have enough workers to meet job demand, and this is directly impacting on Council's ability to recruit into vacant positions.

#### *Borrowing costs*

Favourable variance of \$2.9M is due to sewer fund loans that were repaid in April 2021, however budgets had been included for them in the original budget 2021-22. In addition further sewer fund loans were repaid and not refinanced as expected in March 2022 and the water fund loans that were refinanced achieved lower interest rates than forecast.

#### *Materials and services*

Unfavourable variance of (\$8.9M) attributable to reduction in net internal revenue forecasts of \$10.4M. Internal revenues and expenses net to Materials and Services and the Internal revenue forecasts for recovery from Council's capex program were overestimated and impacted by the reduction in Council's capex program.

This was partially offset by a favourable variance in general Materials and Services expenditure of \$1.5M.

#### *Depreciation*

Favourable variance of \$15.1M is due to reduced capital expenditure that resulted in fewer projects being capitalised and depreciated. This was due to severe weather events and supply chain issues that negatively impacted program delivery during the year.

## 2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)

### *Other expenses*

The unfavourable variance of (\$11.6M) is mainly due to:

- Favourable variance in EPA Waste Levy due to reduced tonnages received at Council's Waste Management facilities \$1.4M
- Favourable variance in donations and contributions to government and community organisations \$1.2M
- Unfavourable variance in bad debts write offs during the year (\$1.1M)
- Unfavourable variance due to the recognition of unrealised market value movements in tradeable floating rate notes and bond investments (\$13.1M).

### **Statement of Financial Position**

The Statement of Financial Position details the value of what Council owns ("assets") and what Council owes ("liabilities").

Within these headings, "Current" means an amount that is due to be realised within the next 12 months whilst "Non-current" indicates an asset or liability that is longer term in nature.

For the movement between financial years, a positive movement means that the values have increased from 30 June 2021 to 30 June 2022.

<b>Statement of Financial Position</b>	<b>30 June 2022</b>	<b>30 June 2021</b>	<b>Movement</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>			
Current Assets	306,703	342,370	(35,667)
Non-Current Assets*	7,748,655	7,625,575	123,080
<b>Total Assets</b>	<b>8,055,358</b>	<b>7,967,945</b>	<b>87,413</b>
<b>Liabilities</b>			
Current Liabilities	192,730	187,154	(5,576)
Non-Current Liabilities	370,641	397,462	26,821
<b>Total Liabilities</b>	<b>563,371</b>	<b>584,616</b>	<b>21,245</b>
<b>Net Equity</b>	<b>7,491,987</b>	<b>7,383,329</b>	<b>108,658</b>

\* Subject to change following inclusion of asset revaluation adjustments

### *Current assets*

Current assets decreased by (\$35.7M) due to a (\$28.7M) reduction in non-current assets held for sale as a result of the sale program of assets surplus to Council needs, part of Council's financial recovery plan, a reduction of (\$10.1M) in current cash and cash equivalents and investments, partially offset by an increase in current receivables of \$2.8M.

## 2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)

### *Non-current assets*

Non-current assets increased by \$123.1M due in part to an \$177.8M increase in investments, \$3.2M increase in intangible assets partially offset by a reduction in infrastructure, property, plant and equipment of (\$58.4M) as depreciation, impairments and asset disposals were greater than asset additions in 2021-2022.

Council's overall cash and investment portfolio as at 30 June 2022 totalled \$652.1M compared to \$484.4M at 30 June 2021 an increase of \$167.7M.

### *Current Liabilities*

Current liabilities increased by (\$5.6M) due to a (\$11.0M) increase in payables, (\$3.5M) increase in provisions, (\$3.1M) increase in contract liabilities, partially offset by a reduction in borrowings \$12.1M. The increases in provisions and contract liabilities were largely offset by reductions in non-current liabilities (see below).

### *Non-Current Liabilities*

Non-current liabilities decreased by \$26.8M due to reduction in borrowings of \$21.8M, a decrease in contract liabilities of \$3.9M and a reduction in provisions of \$1.6M.

Consolidated external debt was \$313.3M at 30 June 2022 compared to \$347.2M at 30 June 2021, a reduction of \$33.9M.

## Statement of Performance Measurement (Note G5)

Note G5 - Statement of Performance Measures, includes various indicators mandated by the Office of Local Government (OLG). The following indicators provide a 'snap-shot' of financial performance and comparability between Councils. The "benchmark" figures for the indicators reported represent the OLG's benchmarks.

Local Government Industry Indicators	2022	2021	OLG Benchmark	2022 Result
Operating Performance Ratio	8.92%	(10.37%)	> 0.00%	✓
Own Source Operating Revenue Ratio	83.02%	79.83%	> 60.00%	✓
Unrestricted Current Ratio	3.39x	2.12x	> 1.50	✓
Debt Service Cover Ratio	3.99x	1.44x	> 2.00x	✓
Rates, Annual Charges, Interest Outstanding Percentage	4.75%	5.69%	< 5.00%	✓
Cash Expense Cover Ratio	7.02 months	5.00 months	> 3 months	✓

*Operating Performance Ratio* - measures how well Council contained operating expenditure within operating revenue. Council has turned the result for this ratio around in 2021-2022 via implementing its financial recovery plan and achieved over the benchmark result.

## 2.2 **Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)**

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*Own Source Operating Revenue Ratio* - measures Council's fiscal flexibility and the degree of reliance on external funding sources such as operating grants and contributions. Council's performance is significantly above the benchmark in 2021-2022.

*Unrestricted Current Ratio* – measures the adequacy of working capital and Council's ability to satisfy obligations in the short term for the unrestricted activities of Council. Council has achieved this benchmark in 2021-2022.

*Debt Service Cover Ratio* - measures the availability of operating cash to service debt including interest, principal and lease payments. Council has achieved this ratio in 2021-2022 as the operating result before capital excluding interest and depreciation adequately covered loan principal repayments and borrowing costs.

*Rate and annual charges outstanding ratio* - assesses the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of debt recovery efforts. Council has achieved this ratio in 2021-2022 and shown a significant improvement from the prior year that was adversely impacted by COVID 19 and relaxation of collection activities.

*Cash Expense Cover Ratio* - this liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow. Council's performance is significantly above the benchmark in 2021-2022.

The above ratios form part of Council's Financial Strategy that was adopted by Council on 23 August 2022. The monitoring of the ratios within the Financial Strategy will ensure that Council remains on track to achieve a healthy financial position both in the short and long term.

**Water Supply Authority (WSA) Financial Statements**

**Operating Result**

The operating deficit before capital grants and contributions for the 2021-2022 financial year is (\$4.5M). The operating surplus including capital grants and contributions of \$15.9M, is a surplus of \$11.4M. The operating result in 2021-2022 shows significant improvement of \$37.0M on the prior year. The operating result in 2020-2021 was adversely impacted by the organisational restructure.

	2021-2022 Actual \$'000	2020-2021 Actual \$'000
Income from operations	166,003	161,863
Expenditure from operations	170,467	203,338
<b>Net operating result (excluding capital grants and contributions)</b>	<b>(4,464)</b>	<b>(41,475)</b>
Income from capital grants and contributions	15,879	24,630
<b>Net operating result (including capital grants and contributions)</b>	<b>11,415</b>	<b>(16,845)</b>

The below table compares the 2021-2022 actual results to the original budget.

	2021- 2022 Actual \$'000	2021- 2022 Original Budget \$'000	Variance to Original Budget Favourable / (Unfavourable) \$'000
<b>Income Statement</b>			
Income from operations	166,003	166,763	(760)
Expenditure from operations	170,467	189,734	19,267
<b>Net operating result (excluding capital grants and contributions)</b>	<b>(4,464)</b>	<b>(22,971)</b>	<b>18,507</b>
Income from capital grants and contributions	15,879	17,920	(2,041)
<b>Net operating result (including capital grants and contributions)</b>	<b>11,415</b>	<b>(5,051)</b>	<b>16,466</b>



**2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022  
(contd)**

**Income from Operations**

The following table reports income by category and is followed by explanations relating to variations between actual income compared to the 2021-2022 original budget.

	2021-2022 Actual \$'000	2021- 2022 Original Budget \$'000	Variance to Original Budget Favourable / (Unfavourable) \$'000	Variance to Original Budget Favourable / (Unfavourable) %
Annual Charges	85,670	84,041	1,629	1.9%
User Charges and Fees	78,136	80,670	(2,534)	(3.1%)
Interest and Investment Revenue	1,959	2,006	(47)	(2.3%)
Other Revenue	112	26	86	330.8%
Grants and Contributions - Operating	117	20	97	485.0%
Grants and Contributions - Capital	15,879	17,920	(2,041)	(11.4%)
Net Gain from disposal of assets	9	-	9	n/a
<b>Total Income</b>	<b>181,882</b>	<b>184,683</b>	<b>(2,801)</b>	<b>(1.5%)</b>

*Annual charges*

Favourable variance of \$1.6M is due to additional sewer annual charges income from IPART's Clarification Notice No 1 of 2021. Council brought a clerical error in the 2019 Pricing Determination to IPART's attention and IPART issued amendments to correct the error resulting in additional income.

*User charges and fees*

Unfavourable variance of (\$2.5M) in water user charges as water demand was significantly lower than the previous financial year due to the amount of rainfall received during the year.

*Interest and investment revenue*

Interest and investment revenue is in line with budget, with no material variations to original budget.

*Other revenue*

Other revenue is in line with budget, with no material variations to original budget.

*Grants and contributions - Operating*

Grants and contributions - Operating is in line with budget, with no material variations to original budget.

## 2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)

### *Grants and contributions - Capital*

The unfavourable variance of \$2.0M relates to:

- Additional capital grants for water and sewer infrastructure that were approved subsequent to the adoption of the original budget \$4.4M
- Additional income was also received and donated and developer contributed assets that were not included in the original budget forecast \$0.2M
- This was partially offset by lower than anticipated developer contributions received (\$6.6M).

### *Net Gain from disposal of assets*

No material transactions in this category in 2021-2022, a small disposal of a land asset.

### **Expenditure from Operations**

The following table reports expenditure by category and is followed by explanations relating to variations between actual expenses compared to the 2021-2022 original budget.

	2021- 2022 Actual	2021-2022 Original Budget	Variance to Original Budget Favourable / (Unfavourable) \$'000	Variance to Original Budget Favourable / (Unfavourable) %
<b>Expenditure from Operations</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
Employee benefits and on-costs	27,242	28,780	1,538	5.3%
Borrowing costs	10,489	10,870	381	3.5%
Materials and services	56,794	64,862	8,068	12.4%
Depreciation and amortisation	72,840	85,222	12,382	14.5%
Other expenses	3,102	-	(3,102)	n/a
<b>Total Expenditure</b>	<b>170,467</b>	<b>189,734</b>	<b>19,267</b>	<b>10.2%</b>

### *Employee costs*

Favourable variance of \$1.5M is primarily due to vacant positions across the WSA. In the current economic climate Council is experiencing difficulties filling vacant positions

### *Borrowing costs*

Favourable variance of \$0.4M is due to sewer fund loans that were repaid in April 2021, however budgets had been included for them in the original budget 2021-22. In addition further sewer fund loans were repaid and not refinanced as expected in March 2022 and the water fund loans that were refinanced achieved lower interest rates than forecast.

## 2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)

### *Materials and contracts*

Favourable variance of \$8.1M is attributable to:

- Favourable variance in corporate overheads allocated to WSA \$3.5M
- Favourable variance in internal expenses allocated to WSA \$2.9M
- Favourable variance in general Materials and Services expenditure of \$1.6M.

### *Depreciation*

Favourable variance \$12.3M is mostly due to a reduction in depreciation expense in line with the revaluation of WSA asset classes in 2020-2021 and reduced capital expenditure that resulted in fewer projects being capitalised and depreciated in FY22.

### *Other expenses*

The unfavourable variance of (\$3.1M) is due to the recognition of unrealised market value movements in tradeable floating rate notes and bond investments (\$3.1M).

### **Statement of Financial Position**

For the movement between financial years a positive movement means that the values have increased from 30 June 2021 to 30 June 2022.

	30 June 2022 \$'000	30 June 2021 \$'000	Movement \$'000
<b>Statement of Financial Position</b>			
<b>Assets</b>			
Current Assets	108,975	93,386	15,589
Non-Current Assets*	3,835,848	3,865,149	(29,301)
<b>Total Assets</b>	<b>3,944,823</b>	<b>3,958,535</b>	<b>(13,712)</b>
<b>Liabilities</b>			
Current Liabilities	66,514	82,860	16,346
Non-Current Liabilities	171,676	180,584	8,908
<b>Total Liabilities</b>	<b>238,190</b>	<b>263,444</b>	<b>25,254</b>
<b>Net Equity</b>	<b>3,706,633</b>	<b>3,695,091</b>	<b>11,542</b>

\* Subject to change following inclusion of water and sewer asset revaluation adjustment

### *Current assets*

Current assets increased by \$15.6M due to an increase of \$9.2M in current cash and cash equivalents and investments due mainly to underspend on capex and operating expenses and an increase in current receivables of \$6.5M.

## **2.2 Draft Financial Statements for the period 1 July 2021 to 30 June 2022 (contd)**

---

### *Non-current assets*

Non-current assets decreased by (\$29.3M) due to a reduction in infrastructure, property, plant and equipment of (\$27.6M) as depreciation, impairments and asset disposals were greater than asset additions in 2021-2022 and (\$1.7M) write down of drainage easement intangible assets.

WSA's overall cash and investment portfolio as at 30 June 2022 totalled \$150.3M compared to \$141.1M at 30 June 2021 an increase of \$9.2M.

### *Current Liabilities*

Current liabilities decreased by \$16.3M due to a reduction in borrowings of \$16.0M and a reduction in contract liabilities of \$2.2M partially offset by an increase in payables of (\$1.7M).

### *Non-Current Liabilities*

Non-current liabilities decreased by \$8.9M due to reduction in borrowings of \$10.6M and a reduction in provisions of \$0.7M partially offset by an increase in contract liabilities of (\$2.3M).

WSA external debt was \$205.4M at 30 June 2022 compared to \$232.0M at 30 June 2021 a reduction of \$26.6M.

## **Attachments**

*Attachments to be provided under separate cover in advance of meeting*



**Item No:** 4.1  
**Title:** Internal Audit Work Plan 2022-23  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/00030 - D15321758  
Author: Edward Hock, Unit Manager Governance, Risk and Legal  
Executive: Krystie Bryant, Director Corporate Services (Acting)

## **Recommendation**

- 1 *That the Committee endorse the Internal Audit Work Plan 2022-23.*
- 2 *That the Committee recommend that this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

*The information provided in this report is current as at 2/09/2022.*

## **Summary**

In consultation with internal stakeholders, Council's Enterprise Risk Manager, and the Internal Audit partner, Centium, Council has developed an Internal Audit Work Plan for the Financial Year 2022-23, which includes certain mandatory audit activities, together with non-mandatory activities that address areas of identified risk for Council.

## **Mandatory Internal Audit Program**

Council, as a result of its activities and status as a self-insurer, is required to undertake certain mandatory audits on an annual, or otherwise regular basis. Those activities have been scoped into this year's work plan, and include:

### *National Heavy Vehicle Accreditation Scheme*

Council operates a fleet of heavy vehicles and is required to undertake an annual accreditation audit. Every second year, the accreditation audit is required by the scheme to be conducted by an external party. As Council undertook the accreditation audit itself in 2021, this year's accreditation audit is being conducted by Centium, and is underway.

### *Transport for New South Wales DRIVES24*

Council utilises the Transport for New South Wales DRIVES24 system to locate offenders to serve fines and other documents. A component of the licence is the requirement to undertake an annual audit of the usage of the platform.

*State Insurance Regulatory Authority*

Due to Council's status as a self-insurer for workers compensation claims, it is required by the State Insurance Regulatory Authority ('SIRA') to undertake an annual audit of a volume of claims as determined by SIRA. This audit complements a further file review undertaken mid-year directly by SIRA.

*Councillor Expenses, Facilities, and Allowances*

Council's Councillor Expenses, Facilities, and Allowances Policy provides for the operation of the policy to be audited at minimum every two years. This audit is due in 2022, having last been undertaken in 2020. Although Council is in a period of Administration, it is considered appropriate to maintain the adopted schedule of this activity.

**Non-Mandatory Internal Audit Program**

The identified areas of need for Council's non-mandatory program for this financial year include the following activities:

*Compliance Risk*

Several Councils in New South Wales have advanced a position of need related to a comprehensive compliance framework. Certain private sector providers appear to be taking steps to develop such a framework (including Lexis Nexis), but those products are at least 12 months away. In the meantime, Council sees benefit in ensuring that its compliance framework is up to date, efficient, and effective. This program will include the following:

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**Compliance Policy**

- **Policy: Compliance Policy is aligned with organisational values and strategy, endorsed by the governing body, well written, available, and is based on appropriate compliance obligations and an understanding of compliance risks. The compliance governance framework and organisation structure are reflected in the compliance policy.**
- **Objectives: Compliance objectives are consistent with compliance policy, measurable (where practicable), proportionate to risk, communicated to appropriate parties and monitored and revised as appropriate.**

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**Compliance Activities**

- **Functions: Compliance functions, wherever situated, have sufficient knowledge, standing, and independence to provide effective advice. Compliance is integrated with other functions to an appropriate degree (e.g., Governance, Audit, Risk, Legal).**
  - **Management: Compliance management responsibilities are appropriately allocated. Management at all levels supports the achievement of compliance objectives. Necessary third-party compliance is monitored effectively.**
  - **Operation: Compliance activities are appropriate, effective, efficient, and evidenced. Appropriate and effective actions are taken to escalate and deal with non-compliance.**
-

**Compliance Performance**

- **Monitoring: A variety of compliance monitoring channels are in place and operating effectively. Compliance performance is monitored against agreed indicators.**
  - **Reporting: Compliance reporting is integrated with other routine reporting and is quality controlled.**
  - **Review: Audit and Management review compliance management systems to ensure their continued suitability, adequacy, and effectiveness and to identified opportunities for continual improvement.**
- 

*Privacy Management*

In August 2022, Council adopted an updated Privacy Management Plan, pursuant to guidelines issued by the Information & Privacy Commission. Given significant staff turnover, and loss of certain subject matter expertise within the organisation, Council will have external assurance over both the content of its Privacy Management Plan, and its operational conformance with it.

*Grants and Capital Expenditure*

Council carried a significant underspend in its capital works program in FY2021-22, which warrants investigation to analyse and assess root causes and any areas for improvement in the progress of its capital works program. Attendant to this review will be an assessment of Council's efficiency and effectiveness in obtaining and expending grant funding related to the capital works program.

**Attachments**

*Nil.*



**Item No:** 5.1  
**Title:** NSW Auditor-General's Local Government Report 2021  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/00030 - D15239447  
Author: Chantelle Ahio, Civic Support Officer

### **Recommendation**

- 1 *That the Committee note NSW Auditor-General's Final Report - Local Government 2021*
- 2 *That the Committee recommend that this report and/or the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

*The information provided in this report is current as at 1/09/2022.*

### **Summary**

The purpose of this report is to provide the Committee with the NSW Auditor-General Final Report – Local Government 2021.

### **Attachments**

- 1 NSW Auditor-General's Final Report - Local Government 2021 D15239449





FINANCIAL AUDIT

22 JUNE 2022

# Local Government 2021

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT



## THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of state public sector and local government entities' financial statements. We also audit the Consolidated State Financial Statements, a consolidation of all state public sector agencies' financial statements.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to Parliament. In combination, these reports give opinions on the truth and fairness of financial statements, and comment on entity internal controls and governance, and compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews, compliance engagements and audits requested under section 27B(3) of the *Government Sector Audit Act 1983*, and section 421E of the *Local Government Act 1993*.

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GPO Box 12  
Sydney NSW 2001

The Legislative Assembly  
Parliament House  
Sydney NSW 2000

The Legislative Council  
Parliament House  
Sydney NSW 2000

In accordance with section 421D of the *Local Government Act 1993*, I present a report titled '**Local Government 2021**'.

A handwritten signature in black ink, appearing to read 'Margaret Crawford'.

**Margaret Crawford**  
Auditor-General for New South Wales  
22 June 2022



The Audit Office of New South Wales pay our respect and recognise Aboriginal people as the traditional custodians of the land in NSW.

We recognise that Aboriginal people, as custodians, have a spiritual, social and cultural connection with their lands and waters, and have made and continue to make a rich, unique and lasting contribution to the State. We are committed to continue learning about Aboriginal and Torres Strait Islander peoples' history and culture.

We honour and thank the traditional owners of the land on which our office is located, the Gadigal people of the Eora nation, and the traditional owners of the lands on which our staff live and work. We pay our respects to their Elders past and present, and to the next generation of leaders.

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## Auditor-General's foreword

Pursuant to the *Local Government Act 1993* I present my report Local Government 2021. My report provides the results of the 2020–21 financial audits of 127 councils, 13 joint organisations and nine county councils.

Unqualified audit opinions were issued for 126 councils, 13 joint organisation and nine county councils in 2020–21. My independent auditor's opinion was qualified for Central Coast Council who was unable to provide evidence to support the carrying value of \$5.5 billion of roads, bridges, footpaths, bulk earthworks, stormwater drainage, water supply and sewerage network assets.

The 2020–21 year was challenging from many perspectives, not least being the continuing impact of and response to the recent emergency events, including bushfires, floods and the COVID-19 pandemic. We appreciate the efforts of council staff and management right across local government and they must be congratulated for their responsiveness and resilience in meeting their financial reporting obligations in such challenging circumstances.

This report makes a number of recommendations to councils and to the regulator, the Office of Local Government within the Department of Planning and Environment. These are intended to support councils to further improve the timeliness, accuracy and strength of financial reporting and their governance arrangements. Arguably, when faced with challenges, it is even more important to prioritise and invest in systems and processes to protect the integrity of councils' operations and promote accurate and transparent reporting.

I look forward to continuing engagement and constructive dialogue with councils in 2022–23 and beyond.

Margaret Crawford  
Auditor-General for New South Wales

## Section one

### Local Government 2021

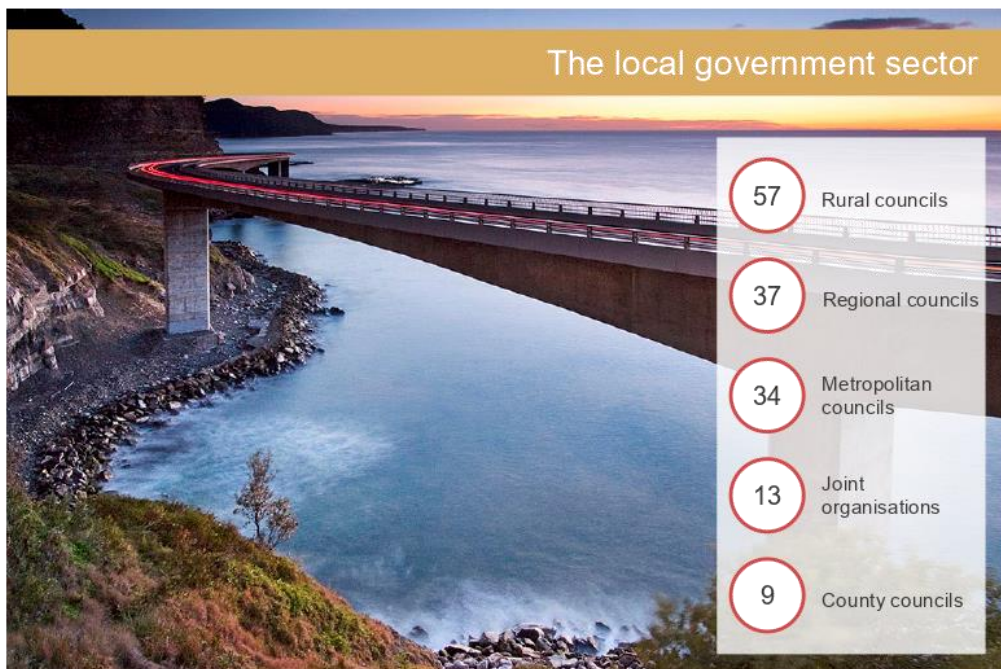
This report analyses the results of our audits of local councils for the year ended 30 June 2021.

# 1. Introduction

## 1.1 The local government sector

Local government is the third tier of government. It is established under state legislation, which defines the powers and geographical areas each council is responsible for.

At 30 June 2021, there were 128 local councils, 13 joint organisations and nine county councils and in New South Wales.



Councils provide a range of services and infrastructure for a geographical area. Services include waste collection, planning, child and family day care, and recreational services. Councils also build and maintain infrastructure, including roads, footpaths and drains, and enforce various laws. While core functions such as waste collection are similar across councils, the range of services each council provides can vary depending on the needs of each community.

County councils are formed for specific purposes, such as to supply water, manage flood plains or eradicate noxious weeds.

Joint organisations (JOs) are formed by councils in regional New South Wales. Core activities of JOs include regional strategic planning and priority setting, engaging in shared services with member councils, and regional advocacy and collaboration with the state and federal governments.

This report provides the results of the 2020–21 financial audits of 127 councils, 13 joint organisations and nine county councils.

In preparing this report, our observations and analyses were drawn from:

- audited financial statements
- performance audit reports
- data collected from councils
- audit findings reported to councils in audit management letters.

Each local council has unique characteristics such as its size, location and services provided to their communities. To enable comparison, we divided councils into three categories – metropolitan, regional and rural. County councils and joint organisations are separately identified in the report. Details of councils grouped into categories are provided in Appendix three.

## 1.2 Performance audit

Our performance audits assess whether the activities of government entities are being carried out effectively, economically, efficiently and in compliance with relevant laws. Our mandate to conduct these audits is provided under the *Local Government Act 1993* (LG Act).

Performance audits relevant to the local government sector in 2021–22 included:

### Integrity of grant program administration

The objective of [Integrity of grant program administration](#) was to assess the integrity of the assessment and approval processes for NSW Government grant programs. The audit focused on two grant programs:

- Stronger Communities Fund Round 2 (tied grants round), which was administered by the Office of Local Government (OLG) within the Department of Planning and Environment, and provided \$252 million to newly amalgamated councils and other councils that had been subject to a merger proposal during 2017–18 and 2018–19
- Regional Cultural Fund, which was administered by Create NSW (now within the Department of Premier and Cabinet) and awarded \$100 million for cultural projects in regional NSW.

We recommended the Department of Premier and Cabinet develop a model to use for all grant program administration in NSW. The Department of Planning and Environment should ensure that guidelines prepared are published and include a governance framework that includes accountabilities and key assessment steps.

### Local government business and service continuity arrangements for natural disasters

[Local government business and service continuity arrangements for natural disasters](#) followed on from 'Report on Local Government 2020' with a detailed examination of the effectiveness of business and service continuity arrangements for natural disasters in two councils: Bega Valley Shire Council and Snowy Valleys Council.

In making this assessment, we considered whether the selected councils:

- had documented approaches for identifying, mitigating and responding to disaster-related risks to business and service continuity
- effectively implemented strategies to prepare for identified disaster-related impacts
- were effective in managing business and service continuity during their response to selected disasters.



We recommended:

- Bega Valley Shire Council should update and regularly review its business continuity plans, provide business continuity training, and improve its monitoring of risk controls and actions, including for natural disaster impacts.
- Snowy Valleys Council should document and monitor all disruption-related risks and controls, regularly review and update its business continuity plans, and progress planned actions to increase staff awareness of business continuity plans.
- Across both councils, we recommended that record keeping relating to service delivery during natural disasters should be adequate to inform post incident reviews and future updates to business continuity.

### Building regulation: combustible external cladding

[Building regulation: combustible external cladding](#) focused on how effectively the Department of Customer Service (DCS) and Department of Planning and Environment (DPE) led reforms addressing the unsafe use of combustible external cladding on existing residential and public buildings.

Nine local councils were included in the audit because they have responsibilities and powers needed to implement the NSW Government's reforms.

We recommended the DCS and DPE should:

- address the confusion surrounding the application of the Commissioner for Fair Trading's product use ban for aluminium composite panels with polyethylene content greater than 30%
- develop an action plan to address buildings assessed as low-risk
- improve information systems to track all buildings from identification through to remediation.

The following local government performance audit reports are either planned or in progress with an expectation to complete them in 2022:

- **Development applications: assessment and determination stages**  
This audit aims to assess whether selected councils are effectively assessing and determining development applications and whether selected councils and the Department of Planning and Environment are effectively supporting independent planning panels to determine development applications in compliance with relevant legislation, regulations and government guidance.
- **Effectiveness of financial management and governance in selected council(s)**  
Under the LG Act, councils must apply sound financial management principles that require responsible and sustainable spending and investment, and ensure that future decisions consider intergenerational effects and equity. This audit will examine how these principles are effectively applied in councils' financial and asset management, funding decisions and risk management practices, and may examine how councils' expenditure and investment decisions have complied with legislative requirements.
- **The effectiveness of local government regulation and support**  
This audit aims to assess whether the Office of Local Government within the Department of Planning and Environment is effectively monitoring and regulating the local government sector in NSW.
- **Audit Office Insights 2018–2022**  
This report will analyse the key findings and recommendations from performance and other audits tabled in the New South Wales Parliament between 2018 and 2022, spanning varied areas of government activity, including local government. The report will present common findings and lessons from the past three years of audits with particular focus on issues relating to the integrity and transparency of decision-making and processes, as well as the fundamentals of good governance such as probity controls and record keeping.

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## 2. Audit results

Financial reporting is an important element of good governance. Confidence in and transparency of public sector decision-making are enhanced when financial reporting is accurate and timely.

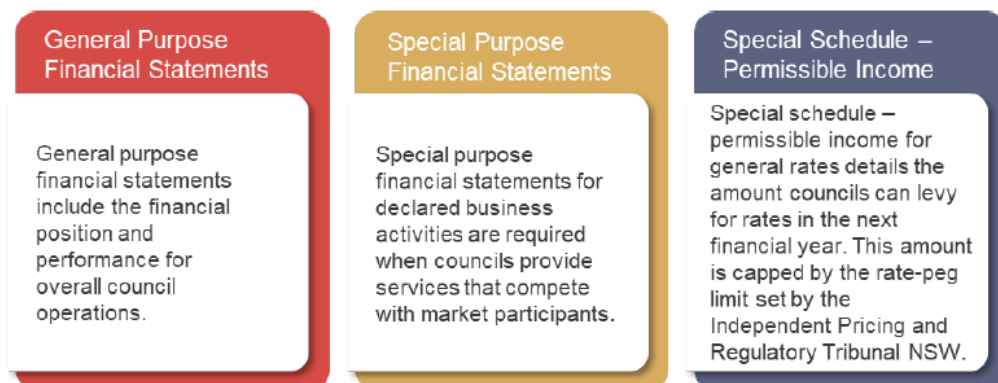
This chapter outlines audit observations related to the financial reporting of councils and joint organisations.

### Highlights

- One hundred and nine councils and joint organisations (2020: 133) lodged audited financial statements with OLG by the statutory deadline of 31 October (2020: 30 November).
- Forty-one councils and joint organisations (2020: 16) received extensions to submit audited financial statements to OLG.
- Unqualified audit opinions were issued for 126 councils, 13 joint organisations and nine county councils in 2020–21. A qualified audit opinion was issued for Central Coast Council in both 2019–20 and 2020–21.
- The audit of Kiama Municipal Council is still in progress as at the date of this report due to significant accounting issues.
- Fifty-nine per cent of councils performed some early financial reporting procedures, less than the prior year. We recommended that OLG should require early close procedures across the local government sector by 30 April 2023.
- The total number and dollar value of corrected financial statement errors increased compared with the prior year, however uncorrected financial statement errors and prior period financial statement errors decreased compared to the prior year.
- Sixty-eight councils (2020: 68 councils) did not record rural firefighting equipment in their financial statements worth an estimated \$145 million (2020: \$119 million). The NSW Government has confirmed these assets are not controlled by the NSW Rural Fire Service and are not recognised in the financial records of the NSW Government. We recommended that consistent with the OLG's role to assess council's compliance with legislative responsibilities, standards or guidelines, OLG should intervene where councils do not recognise rural firefighting equipment. Councils should perform a full asset stocktake of rural firefighting equipment, including a condition assessment for 30 June 2022 financial reporting purposes.

## 2.1 Quality of financial reporting

The Auditor-General is required under the LG Act to issue an audit opinion on the following reports prepared by councils.



Indicators of quality financial reporting include:

- unqualified audit opinions
- the number of errors in financial statements
- timeliness in preparing financial statements.

### Audit opinions

#### Unqualified audit opinions were issued for all but one council

Except for Central Coast Council, unqualified audit opinions were issued for all completed councils and joint organisations' 30 June 2021 financial statements audits. Sufficient audit evidence was obtained to conclude the financial statements were free of material misstatement and were prepared in accordance with Australian Accounting Standards and the LG Act.

#### Qualified audit opinion issued for Central Coast Council on carrying values of roads, bridges, footpaths, bulk earthworks, stormwater drainage, water supply network and sewerage network assets

A qualified audit opinion was issued for the 30 June 2021 financial statements of Central Coast Council. As disclosed in the financial statements of Central Coast Council, the council recognised \$5.5 billion of roads, bridges, footpaths, bulk earthworks, stormwater drainage, water supply network and sewerage network assets within 'Infrastructure, property, plant and equipment' in the Statement of Financial Position as at 30 June 2021.

In the 'Statement by the Administrator and Management', Central Coast Council certified that they were unable to provide sufficient evidence to support the carrying values of these assets in the Statement of Financial Position as at 30 June 2021. This is because the asset data used by council to value these assets could not be reconciled by council to its financial records prior to the valuation. The asset data was sourced from a non-financial system that did not include financial information or reference data that could be used to identify assets in council's fixed asset register.

Due to this limitation in scope of our audit, we were also unable to obtain sufficient appropriate audit evidence to support the carrying value of these assets and determine its impact on the Income Statement, Statement of Comprehensive Income and relevant notes to the financial statements for the year ended 30 June 2021.

**Emphasis of matter paragraphs were included in Tenterfield Shire Council and Central Coast Council audit opinions relating to non-compliance with the LG Act**

An emphasis of matter paragraph was included in the Independent Auditor's Reports to draw attention to non-compliance with the LG Act which both councils self-disclosed in their financial statements.

Both councils breached sections 409 and 410 of the LG Act during the year ended 30 June 2021 by accessing restricted funds without the required approvals.

Council	Reason
Tenterfield Shire Council	<ul style="list-style-type: none"> <li>Council's negative unrestricted cash of \$1.2 million represents a breach of section 409(3) of the LG Act.</li> <li>Council is unable to verify that funds raised by special rates or charges were not used to pay for general fund expenses during the year ended 30 June 2021.</li> <li>Council acknowledges it may have used restricted special rates and charges funds for purposes other than their intended use, without ministerial approval. Such unapproved use would not comply with section 410(3) of the LG Act.</li> </ul>
Central Coast Council	<ul style="list-style-type: none"> <li>Council is of the view that monies received by the Water Supply Authority under the <i>Water Management Act</i> is within the scope of S409(3) of the LG Act and are therefore externally restricted.</li> <li>Council acknowledges it accessed restricted special rates and charges funds for purposes other than their intended use, without ministerial approval. Such unapproved use does not comply with section 409 and 410 of the LG Act.</li> </ul>

**Audit is still in progress for one council**

The following audit remains outstanding and the outcome will be reported in next year's report to Parliament:

Council	Reason
Kiama Municipal Council	Resolving issues including: <ul style="list-style-type: none"> <li>weaknesses in supporting working papers and reconciliations of key accounts and sub-ledgers</li> <li>presentation and disclosure deficiencies in the draft financial statements</li> <li>four prior period accounting errors in council's draft financial statements, for which we are seeking supporting documentation from council</li> <li>liquidity and governance matters being considered by council.</li> </ul>

## Errors identified through audits

### Increase in the dollar value of errors identified

Our audits identified more errors and the total dollar value of these errors was higher compared to the prior year. It is important that councils perform robust reviews to minimise errors identified in financial statements. There were 18 councils (2019–20: 20 councils) where no errors were identified in their financial statements.

### Corrected errors

A corrected error is an error identified by the auditor or council, which is subsequently corrected by council in the financial statements.

Year ended 30 June	Corrected errors		By council type (2021 only)				
	2020	2021	Metro	Regional	Rural	County	JO
Less than \$250,000	60	66	5	9	41	5	6
\$250,000 to \$500,000	25	37	5	10	20	2	--
\$500,000 to \$1 million	41	38	10	18	10	--	--
\$1 million to \$5 million	69	69	18	32	19	--	--
\$5 million to \$15 million	27	19	9	9	1	--	--
\$15 million to \$30 million	8	4	2	1	1	--	--
\$30 million to \$50 million	5	6	3	3	--	--	--
\$50 million and greater	3	7	3	3	1	--	--
<b>Total number of errors</b>	<b>238</b>	<b>246</b>	<b>55</b>	<b>85</b>	<b>93</b>	<b>7</b>	<b>6</b>
<b>Total value of errors (\$ million)</b>	<b>1,070</b>	<b>1,686</b>	<b>504</b>	<b>1,038</b>	<b>143</b>	<b>1</b>	<b>--</b>

Source: Engagement Closing Reports issued by the Audit Office.

Of the 246 corrected errors identified in the 30 June 2021 financial statements, 13 were greater than \$30 million:

Council	Description of corrected error
Albury City Council	Council's financial statements were corrected by management following the commencement of the audit to reflect asset indexation movements amounting to \$33.2 million.
Camden Council	Council's revaluation of other structures/open space assets was overstated by \$37.1 million because incorrect cost unit rates were used to value the assets. This error was identified and corrected by management.
Carrathool Shire Council	Council's revaluation of road assets was understated by \$58.9 million because accumulated depreciation was incorrectly counted twice in the supporting calculation.
Central Coast Council	Council's financial statements were corrected to reflect fair value of its operational land amounting to a \$85.8 million increase to its carrying value.
Coffs Harbour City Council	Council, as the lessor, had incorrectly assessed the long-term lease of its airport assets as an operating lease, instead of a finance lease. This resulted in the following amendments: <ul style="list-style-type: none"> <li>reversal of \$33.7 million in operating lease revenue and deferred lease premium</li> <li>reclassification of \$100.2 million in airport assets from investment properties to finance lease receivables totalling \$85.7 million and capital works in progress totalling \$14.5 million.</li> </ul>
Council of the City of Sydney	Review of council's revaluation of land assets identified an inaccurate land area for a parcel of Crown land, one that is only partially within council's care and control, resulting in an overstatement of land revaluation by \$73.2 million.
Cumberland City Council	Council's roads and stormwater drainage assets decreased in value by \$71.6 million. This fair value adjustment was incorrectly adjusted to asset revaluation reserves instead of expenses in the income statement (given the council did not have sufficient reserves to offset against the decrease in value).
Georges River Council	Council's revaluation of stormwater drainage, specialised and non-specialised buildings asset classes was incorrectly overstated by \$38.2 million in the financial statements.
MidCoast Council	Council's revaluation of community and Crown land was understated by \$31.7 million due to a lack of management oversight in recording revaluation adjustments in the trial balance and the financial statements.
Shoalhaven City Council	Council's financial statements submitted for audit were not updated for the revaluation adjustments for roads, bridges, bulk earthworks and stormwater drainage amounting to \$466 million.
The Hills Shire Council	Council incorrectly applied AASB 1058 'Income of Not-for-Profit Entities' to certain capital grants, which resulted in revenue being overstated by \$31.2 million.



The common areas where corrected errors were identified are outlined below.

Common corrected errors	Number of errors
Poor record keeping of asset data, such as:	46
<ul style="list-style-type: none"> <li>unrecorded assets controlled by council (including found assets)</li> <li>assets recorded that are no longer controlled by council</li> <li>duplicate assets</li> <li>assets incorrectly classified.</li> </ul>	
Asset revaluation errors, such as:	45
<ul style="list-style-type: none"> <li>incorrect data provided to the valuer</li> <li>valuation assumptions that were not appropriate (e.g. inappropriate unit rates applied, valuations did not reflect the physical and legislative restrictions on these assets, or impairment indicators not assessed)</li> <li>inaccurate calculations derived from the revaluation work paper</li> <li>incorrect recording of revaluation or impairment adjustments.</li> </ul>	
Incorrectly accounting for liabilities and accruals	20

### Uncorrected errors

An uncorrected error is an error identified by the auditor or council in the financial statements, which has not been corrected by council. There are various reasons why errors are not corrected, the most common being it is not material to the financial statements taken as a whole.

Year ended 30 June	Uncorrected errors		By council type (2021 only)				
	2020	2021	Metro	Regional	Rural	County	JO
Less than \$250,000	94	88	5	14	62	4	3
\$250,000 to \$500,000	43	44	8	9	26	1	--
\$500,000 to \$1 million	33	37	8	14	15	--	--
\$1 million to \$5 million	78	68	11	30	26	--	1
\$5 million to \$15 million	3	6	2	1	3	--	--
\$15 million to \$30 million	1	--	--	--	--	--	--
<b>Total number of errors</b>	<b>252</b>	<b>243</b>	<b>34</b>	<b>68</b>	<b>132</b>	<b>5</b>	<b>4</b>
<b>Total value of errors (\$ million)</b>	<b>254</b>	<b>238</b>	<b>46</b>	<b>83</b>	<b>104</b>	<b>1</b>	<b>4</b>

Source: Engagement Closing Reports issued by the Audit Office.

### Sixty-one per cent of the total value of uncorrected errors was due to unrecorded rural firefighting equipment

In 2017, we recommended that OLG should address the different practices across the local government sector in accounting for rural firefighting equipment.

In 2020–21, 68 (2019–20: 68) councils did not record rural firefighting equipment in their financial statements estimated to be \$145 million (2019–20: \$119 million). Forty-one councils recognise this equipment in their financial statements with a total value of \$162.8 million, highlighting the inconsistent recognition practices across the local government sector.

The financial statements of the NSW Total State Sector and the NSW Rural Fire Service do not include these assets, as the State is of the view that rural firefighting equipment that has been vested to councils under section 119(2) of the *Rural Fires Act 1997* is not controlled by the State. In reaching this conclusion, the State argued that on balance it would appear the councils control the rural firefighting equipment that has been vested to them. It is important to note that there are only two parties to the agreements that govern the use of vested rural firefighting equipment, leaving only two parties who would be considered to control this equipment - the NSW Rural Fire Service in the State sector, or councils in the local government sector.

The Department of Planning and Environment (inclusive of the Office of Local Government) (the Department) confirmed in the 'Report on Local Government 2020' (tabled in Parliament on 27 May 2021) their view that rural firefighting equipment is not controlled by the NSW Rural Fire Service.

The Local Government Code of Accounting Practice and Financial Reporting confirms the State's view that it does not control these assets but provides that 'Councils need to assess whether they control any rural firefighting equipment in accordance with Australian Accounting Standards'. It would seem however, given the State's view that it does not control these assets, that these assets can only be controlled and therefore recognised by councils in the local government sector.

Despite this, many councils do not report these critical assets in their financial statements.

The continued non-recording of rural firefighting equipment in financial management systems of some councils increases the risk that these assets are not properly maintained and managed. Councils who have rural firefighting equipment vested from the NSW Rural Fire Service should recognise these assets in their financial management systems and consider their condition and useful life.

### Recommendation to councils

**Councils should perform a full asset stocktake of rural firefighting equipment, including a condition assessment for 30 June 2022 financial reporting purposes.**

**Consistent with the requirements of the Australian Accounting Standards, councils should recognise this equipment as assets in their 30 June 2022 financial statements.**

### The Department should intervene where councils do not recognise rural firefighting equipment

The Department, through the Office of Local Government, requires each council to prepare financial statements in accordance with Australian Accounting Standards (accounting standards), as required by the LG Act. The State Government, through NSW Treasury (and in agreement with the Department), has concluded that under accounting standards rural firefighting equipment vested to councils is not controlled by the State, and further on balance that councils in the local government sector control this rural firefighting equipment.

The Department's role includes assessing whether intervention is appropriate with respect to council's compliance with and performance against legislative responsibilities, standards or guidelines. Given the State's clear position, it would appear that any council not recognising this equipment is non-compliant with the relevant accounting standards.

Having considered the accounting position papers prepared by the respective stakeholders, the Audit Office has advised councils and the Department that any council not recognising this equipment is not complying with the requirements of the Australian Accounting Standards.

The Department should now intervene to address this matter as a priority.



### Recommendation to the Department

**Consistent with the Department's role to assess council's compliance with legislative responsibilities, standards or guidelines, the Department should intervene where councils do not recognise rural firefighting equipment.**

We acknowledge that the Department has committed to working closely with NSW Treasury to educate, guide and assist councils to understand the State's view regarding ownership and recognition of rural firefighting equipment in their financial statements.

**Non-recognition of this equipment may impact the financial statements audit opinions of those councils**

The NSW Rural Fire Service (NSW RFS), a state government entity, has spent in excess of \$1.1 billion over the past ten years on rural firefighting activities and equipment. While confirming the State Government's position that it does not control this equipment, the NSW RFS advised it has a complete listing of the rural firefighting equipment vested to councils under section 119(2) of the *Rural Fires Act 1997*, and has provided this to the Department. The NSW RFS also confirmed that as it does not control the equipment, it is unable to confirm its value or condition.

This raises two general questions: whether these assets are being properly managed as in some instances they are purportedly not controlled by any government sector and are not recorded in either the State or the local government sector financial records, and whether in these instances there is non-compliance with accounting standards if this equipment is not recorded in the financial statements of councils. This may impact audit opinions on the financial statements of councils.

The Audit Office is conducting performance audits of the NSW Rural Fire Service (Planning and managing bushfire equipment) and the Office of Local Government (The effectiveness of local government regulation and support).

### Prior period errors

A prior period financial statement error is an error identified in the current year that relates to the previous year's audited financial statements.

— Year ended 30 June	Prior period errors		By council type (2021 only)				
	2020	2021	Metro	Regional	Rural	County	JO
Less than \$250,000	2	4	1	--	3	--	--
\$250,000 to \$500,000	4	2	--	1	1	--	--
\$500,000 to \$1 million	1	4	2	--	2	--	--
\$1 million to \$5 million	18	11	5	1	4	1	--
\$5 million to \$15 million	21	19	9	8	2	--	--
\$15 million to \$30 million	9	6	6	--	--	--	--
\$30 million to \$50 million	1	4	3	1	--	--	--
\$50 million and greater	5	4	2	2	--	--	--
<b>Total number of errors</b>	<b>61</b>	<b>54</b>	<b>28</b>	<b>13</b>	<b>12</b>	<b>1</b>	<b>--</b>
<b>Total value of errors (\$ million)</b>	<b>813</b>	<b>777</b>	<b>500</b>	<b>241</b>	<b>32</b>	<b>4</b>	<b>--</b>

Source: Engagement Closing Reports issued by the Audit Office.

Of the 54 prior period errors, eight were greater than \$30 million. All these errors were asset related.

Council	Description of prior period error
Armidale Regional Council	Council's revaluation of roads, bridges, footpaths, stormwater drainage and transport ancillary assets identified errors relating to prior periods, such as: <ul style="list-style-type: none"> <li>assets controlled by council that had not been recognised amounting to \$74 million</li> <li>assets that no longer exist or controlled by council, but were recorded in the asset registers, amounting to \$31.7 million.</li> </ul>
Blacktown City Council	Council's revaluation of community land identified certain properties amounting to \$79.4 million that were no longer in council's ownership since previous years.
Blue Mountains City Council	Council identified duplicate road shoulder assets amounting to \$37.7 million in the asset records in previous years.
Georges River Council	Council's infrastructure, property, plant and equipment were overstated by \$32.1 million due to incorrect fair values used, found and duplicate assets recorded.
Ku-ring-gai Council	Council's community land was understated by \$49.7 million as newly discovered assets were identified but had not been recognised in previous years.
Penrith City Council	Council's revaluation of land under roads assets identified and corrected an overstatement of \$80.7 million due to duplication of certain sections of land and inclusion of assets not controlled by council at the time of the original recognition of the assets.
Tamworth Regional Council	Council's revaluation of roads identified infrastructure assets controlled by the council that had not been recognised in the financial statements amounting to \$53.9 million.

There were no prior period errors identified at joint organisations.

Of the 54 prior period errors, 45 were asset related that were identified in 28 councils. The common areas where prior period errors were identified are outlined below.

**Eighty-three per centre of the total prior period errors were asset related**

Common prior period errors	Number of errors
Poor record keeping of asset data, such as: <ul style="list-style-type: none"> <li>unrecorded assets controlled by council</li> <li>assets recorded that are no longer controlled by council</li> <li>duplicate assets</li> <li>assets incorrectly classified.</li> </ul>	27
Asset revaluation errors, such as: <ul style="list-style-type: none"> <li>incorrect data provided to the valuer</li> <li>valuation assumptions that were not appropriate (e.g. inappropriate unit rates applied, valuations did not reflect the physical and legislative restrictions on these assets, or impairment indicators not assessed)</li> <li>inaccurate calculations derived from the revaluation work paper</li> <li>incorrect recording of revaluation or impairment adjustments.</li> </ul>	18

## 2.2 Timeliness of financial reporting

The LG Act requires councils to submit their audited financial reports to OLG by the statutory deadline of 31 October or apply for an extension.

### Seventy-three per cent of councils lodged their audited financial statements by the statutory deadline

Councils faced significant challenges responding to the impacts of the COVID-19 pandemic and natural disasters. In some cases, this impacted their ability to submit financial statements to OLG by the statutory deadline.

One hundred and nine councils and joint organisations lodged their audited financial statements by the statutory deadline.

Forty-one councils and joint organisations (2020: 16) applied for, and received, an extension to lodge their audited financial statements at a later date. Fifteen councils applied for more than one extension.

The common reasons why councils required extensions are summarised below.

Common reasons for seeking extension	Council or joint organisation
<p>COVID-19 pandemic impacted council's ability to:</p> <ul style="list-style-type: none"> <li>value its assets timely as valuers were unable to visit asset sites due to travel restrictions</li> <li>recruit staff and contractors to fill vacant positions at short notice</li> <li>work due to remote working challenges.</li> </ul>	<ul style="list-style-type: none"> <li>Camden Council</li> <li>Oberon Council</li> <li>Gwydir Shire Council</li> <li>Weddin Shire Council</li> <li>Cootamundra-Gundagai Regional Council</li> <li>Narrabri Shire Council</li> <li>Strathfield Municipal Council</li> <li>Murray River Council</li> <li>Snowy Monaro Regional Council</li> <li>Shellharbour City Council</li> <li>Lithgow City Council</li> <li>Georges River Council</li> </ul>
<p>Revaluation of infrastructure, property, plant and equipment required more time due to complexities involved.</p>	<ul style="list-style-type: none"> <li>Lockhart Shire Council</li> <li>Clarence Valley Council</li> <li>Wollondilly Shire Council</li> <li>Armidale Regional Council</li> <li>Blue Mountains City Council</li> <li>City of Canada Bay Council</li> <li>Murray River Council</li> <li>Queanbeyan-Palerang Regional Council</li> <li>Shoalhaven City Council</li> <li>Cumberland City Council</li> </ul>
<p>New IT system(s) implemented were not ready for financial reporting purposes.</p>	<ul style="list-style-type: none"> <li>Albury City Council</li> <li>Council of the Municipality of Kiama</li> <li>MidCoast Council</li> <li>City of Canada Bay Council</li> </ul>

Common reasons for seeking extension	Council or joint organisation
Resourcing issues impacting council and audit due to staff shortages affecting year-end financial reporting and audit timeframes.	<ul style="list-style-type: none"> <li>• Uralla Shire Council</li> <li>• Oberon Council</li> <li>• Albury City Council</li> <li>• Weddin Shire Council</li> <li>• Griffith City Council</li> <li>• Upper Hunter Shire Council</li> <li>• Balranald Shire Council</li> <li>• Council of the Municipality of Kiama</li> <li>• Cootamundra-Gundagai Regional Council</li> <li>• Hunter Joint Organisation</li> <li>• Hilltops Council</li> <li>• Armidale Regional Council</li> <li>• Yass Valley Council</li> <li>• Murray River Council</li> <li>• Bega Valley Shire Council</li> <li>• Warrumbungle Shire Council</li> <li>• Wollondilly Shire Council</li> <li>• Snowy Monaro Regional Council</li> <li>• Liverpool City Council</li> <li>• Illawarra Shoalhaven Joint Organisation</li> <li>• Georges River Council</li> <li>• Upper Lachlan Shire Council</li> <li>• Kempsey Shire Council</li> <li>• Tenterfield Shire Council</li> </ul>
Accounting matters that required more time to resolve.	<ul style="list-style-type: none"> <li>• Central Coast Council</li> <li>• Upper Hunter Shire Council</li> <li>• Moree Plains Shire Council</li> <li>• Shellharbour City Council</li> </ul>
Councils' meeting times did not align with signing of the statements.	<ul style="list-style-type: none"> <li>• Northern Rivers Joint Organisation</li> <li>• Kempsey Shire Council</li> </ul>

Source: Council extension letters submitted to OLG.

### Less councils performed early financial reporting procedures

Early close procedures allow financial reporting issues and risks to be addressed by management and audit early in the financial statement close process. Such procedures help to confirm that key controls over councils' balances are carried out and that there is early dialogue with councils and the Audit Office on significant issues. These procedures form good practice that should in any case be carried out at appropriate points in the financial year. This helps to improve the quality and timeliness of financial reporting.

Councils can work with the Audit Office to agree on key early close procedures and an agreed timetable to complete the procedures that will be audited before 30 June. This process will allow for audit observations and feedback on the early close outcomes in time for them to be considered in the year-end financial reporting process.

The intention of these procedures is to facilitate the earlier preparation of councils' financial statements as well as improve quality and minimise the risk of audit qualifications or errors in financial statements submitted to the Audit Office.

Early close plans should allow sufficient time for management review and involvement of Audit Risk and Improvement Committees.

Some early close procedures that councils should consider include:

- completing proforma financial statements and ensuring management has endorsed the statements and reviewed the supporting working papers
- performing and documenting an annual assessment of the fair value of infrastructure, property, plant and equipment, their useful lives, and the reasons why the carrying value was not materially different to the fair value. This assessment is performed between comprehensive revaluations
- completing the comprehensive revaluation of infrastructure, property, plant and equipment by an agreed early close date
- explaining all unresolved prior year audit issues, with a proposed action plan to resolve them
- documenting all significant management judgements and assumptions made when estimating transactions and balances
- reconciling all key account balances (including annual leave provisions) and clearing reconciling items
- supporting work papers evidencing how management has considered the requirements of new and updated accounting standards.

### Recommendation

**OLG should require early close procedures across the local government sector by 30 April 2023. Policy requirements should be discussed with key stakeholders to ensure benefits of the procedures are realised.**

It is generally accepted that timely year-end financial reporting is an indicator of sound financial management processes. Accordingly, measures aimed at the earlier finalisation of annual reports to both council and the regulator should be a priority.

This year, 59% (2019–20: 76%) of councils performed some early financial reporting procedures, including:

- completing infrastructure, property, plant and equipment valuations before 30 June (42 councils)
- performing fair value assessment of infrastructure, property, plant and equipment (24 councils)
- preparing proforma financial statements and associated disclosures (25 councils)
- assessing the impact of material, complex and one-off significant transactions (26 councils)
- explaining all unresolved prior year audit issues, with a proposed action plan to resolve them (39 councils)
- assessing the impact of new accounting standards (58 councils).

## 2.3 Implementation of new accounting standards

AASB 1059 became effective for all NSW councils and joint organisations for the 2020–21 financial year. It applies to arrangements which may involve a private sector operator designing, constructing or upgrading assets used to provide public services, and operating and maintaining those assets for a specified period of time. In return, the private sector operator is compensated by the public sector entity (the grantor).

AASB 1059 did not result in councils and joint organisations recognising service concession assets and liabilities in their financial statements.

## 3. Key audit findings

A strong system of internal controls enables councils to operate effectively and efficiently, produce reliable financial reports, comply with laws and regulations, and support ethical government.

This chapter outlines the overall trends in governance and internal control findings across councils, county councils and joint organisations in 2020–21.

Financial audits focus on key governance matters and internal controls supporting the preparation of councils' financial statements. Audit findings are reported to management and those charged with governance through audit management letters.

### Highlights

- Total number of audit findings reported in audit management letters decreased from 1,435 in 2019–20 to 1,277 in 2020–21.
- No extreme risk audit findings were identified in 2020–21 (2019–20: 1).
- Total number of high-risk audit findings increased from 53 in 2019–20 to 92 in 2020–21. Sixty of the high-risk findings in 2020–21 related to the non-recording of rural firefighting equipment in councils' financial statements. Twenty-six per cent of the high-risk findings identified in 2019–20 were reported as high-risk findings in 2020–21.
- Fifty-three per cent of findings reported in audit management letters were repeat or partial repeat findings. We recommend councils and those charged with governance should track progress of implementing recommendation from our audits.
- Governance, asset management and information technology comprise over 62% of findings and continue to be key areas requiring improvement.
- A number of recommendations were made relating to asset valuations and integrity of asset data records, in response to the findings that:
  - 67 councils had weak processes over maintenance and security of fixed asset registers
  - 58 councils had deficiencies in their processes to revalue infrastructure assets.
- Sixty-five councils have yet to implement basic governance and internal controls to manage cybersecurity. We recommended that OLG needs to develop a cybersecurity policy to be applied by councils as a matter of high priority.

### Total number of findings reported in audit management letters decreased

In 2020–21, 1,277 audit findings were reported in audit management letters (2019–20: 1,435 findings). No extreme audit risk findings were identified this year. The extreme risk relating to Central Coast Council's use of externally restricted funds in 2019–20 was partially addressed by management and has been rated as a high-risk for 2020–21. The total number of high-risk findings increased to 92 (2019–20: 53 high-risk findings).

Findings are classified as new, repeat or ongoing, based on:

- new findings were first reported in 2020–21 audits
- repeat findings were first reported in prior year audits, but remain unresolved in 2020–21
- ongoing findings were first reported in prior year audits, but the action due dates to address the findings are after 2020–21.



Findings are categorised as governance, financial reporting, financial accounting, asset management, purchases and payables, payroll, cash and banking, revenue and receivables, or information technology. The high-risk and common audit findings across these areas are explored further in this chapter.

### 3.1 Sector-wide common audit findings

#### Councils can complete their asset valuations earlier

Councils manage a significant range and value of infrastructure, property, plant and equipment. These assets are significant to the financial statements of councils and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified expert valuer.

We identified a total of 288 findings that related to asset management. Further, we identified that 58 councils had deficiencies in their processes to revalue infrastructure assets.

Common issues identified include:

- inadequate documentation to support key assumptions and judgements applied including:
  - useful lives and condition assessments
  - unit rates used to value infrastructure assets
- incorrect classification of assets
- incorrect exclusion of some assets from valuations
- management not documenting their quality review over the asset valuation
- valuations commencing too late in the financial year and delaying the preparation of the financial statements.

Council's financial statements contained significant corrected errors relating to asset valuations:

- 35 councils corrected 45 errors relating to asset revaluations that amounted to \$1 billion
- 13 councils had 18 prior period errors relating to asset revaluations that amounted to \$253 million.

Performing asset valuations earlier gives time for management and auditors to complete all requirements before the financial statements are prepared and allows earlier sign offs to be achieved. The effective date of the valuation of any asset category can be at any point during the financial year subject to audit:

- 42 councils (28%) completed infrastructure, property, plant and equipment valuations before 30 June 2021
- 24 councils (16%) performed fair value assessments of infrastructure, property, plant and equipment.

#### Recommendation

**Councils should have all asset revaluations completed by April of the financial year subject to audit.**

**Councils should:**

- **have a project plan in place to manage the asset valuation process**
- **include in the plan a timetable with deliverables and dates**
- **consider in the plan the scope of asset valuations, timing and engagement with internal and external stakeholders (e.g. using an expert) managing the timing of deliverables and quality review of the outputs.**

### Asset management and integrity/completeness of asset records

Asset management systems record key data on councils' infrastructure, property, plant and equipment. Maintaining accurate and up-to-date asset data helps council in making appropriate decisions around asset management.

Sixty-seven councils had weak processes over maintenance, completeness and security of fixed asset registers as reported in section 3.5 (refer to page 33). Common issues identified include:

- inaccurate and incomplete data in asset registers such as duplicate or missing assets
- fixed asset registers for additions and disposals were not regularly updated
- asset registers were not maintained in a secure format.

As reported in section 2.1 (refer to page 14), 19 councils had 27 prior period financial statement errors amounting to \$417.1 million. These were related to the quality of asset records, such as found and duplicate assets. In particular, growth councils have increased risk that developer contributed assets are not being recorded timely, resulting in incomplete asset records.

Forty-six corrected errors in the financial statements, amounting to \$102.1 million, relate to poor record keeping of asset data, such as:

- unrecorded assets controlled by council
- assets recorded that are no longer controlled by council
- duplicate assets
- assets incorrectly classified.

### Recommendation

**Councils need to improve controls and processes to ensure integrity and completeness of asset source records.**

**Councils should:**

- **perform timely and regular reconciliations of the fixed asset register to source data records to the general ledger**
- **perform regular review of capital works in progress to identify assets ready for use and capitalise these timely**
- **improve communication and processes between finance and asset/engineering units as this will improve the accuracy and completeness of asset data and the understanding of asset movements required to be updated to councils' source records**
- **implement processes to ensure developer contributed assets are recorded and valued in a timely manner once controlled by the council.**

### OLG should finalise a cybersecurity policy for the local government sector

Poor management of cybersecurity can expose councils to a broad range of risks, including financial loss, reputational damage and data breaches.

Our audits found that cybersecurity security frameworks and related controls were not in place at 65 councils. These councils have yet to implement basic governance and internal controls to manage cybersecurity such as having:

- a cybersecurity framework, policy and procedure
- register of cyber incidents
- system penetrations testing
- cybersecurity training and awareness program.



Refer to section 3.10 'Information technology (IT)' of this chapter for further details.

In 2019 we recommended that OLG should develop a cybersecurity policy by 30 June 2021 to ensure a consistent response to cybersecurity risks across councils. We understand a draft policy is in development.

### Repeat recommendation

OLG needs to develop a cybersecurity policy to be applied by councils as a matter of high priority in order to ensure cyber security risks over key data and IT assets are appropriately managed across councils and key data is safeguarded.

### Councils should monitor the implementation of recommendations

Fifty-three per cent of total findings reported in 2020–21 audit management letters were repeat or partial repeat findings from prior years.

Councils should establish policies on assigning, tracking and monitoring the progress of implementing recommendations from financial audits, as well as performance audits and public or parliamentary inquiries.

Councils should maintain a register of recommendations from financial audits, performance audits and public inquiries which include features such as:

- risk or priority rating to the issue or recommendation
- expected completion dates
- milestone due dates for larger implementation plans with multiple steps
- record of revisions to due dates
- comments to explain why due dates were changed
- assigned ownership with responsibilities.

Councils should consider performing acquittals and subsequent reviews to ensure the council's response to recommendations effectively address the issue and actions are still in place or operating as intended.

Councils should be reporting the status of recommendations on a regular basis to management and those charged with governance/audit, risk and improvement committee (ARIC).

### Recommendation

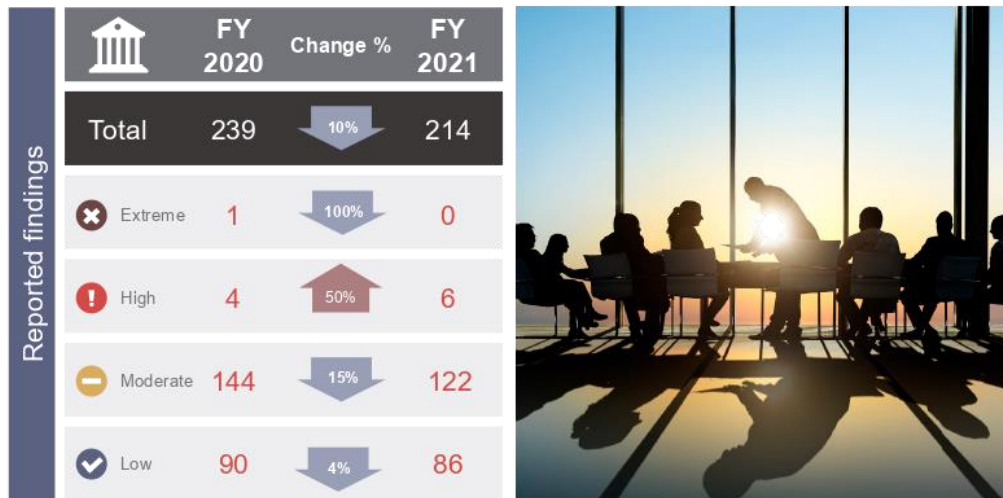
**Councils and those charged with governance should track the progress of implementing recommendations from financial audits, performance audits and public inquiries.**

### 3.2 Governance

Governance is the framework of rules, processes and systems that enables organisations to achieve goals and comply with legal requirements. Good governance promotes public confidence and satisfaction in councils' operations. Key governance areas include appropriate accountability mechanisms, operational and financial risk management, and fraud prevention.

**Governance findings decreased from 239 to 214**

Audit management letters reported 214 findings relating to governance (2019–20: 239 findings). Sixty-five per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

#### Extreme risk findings

No extreme risk findings were identified in 2020–21. Last year, one extreme risk finding was reported at Central Coast Council. The council spent restricted funds for unrestricted purposes during 2019–20, without the appropriate approvals under the LG Act. It was reclassified as a high-risk finding in 2020–21.

## High-risk findings

Six high-risk findings were reported at the following councils, including three new findings, two repeat findings and one repeat finding reclassified from extreme risk in 2019–20. One of the 2019–20 high-risk findings was resolved and one finding was reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

Council	Description
<b>2020–21 findings</b>	
Hunter Joint Organisation (new finding)	Council has not complied with the requirements of section 55 of the Act which requires the council to invite tenders before entering into any contracts as prescribed in the LG Act.
Tenterfield Shire Council (new finding)	Council spent restricted funds for unrestricted purposes during 2020–21, without the appropriate approvals under the LG Act.
Central Coast Council (new finding)	A significant number of internal audit findings remained unresolved in 2020–21. Almost a quarter of these were related to calendar years 2018 and 2019.
Central Coast Council (repeat finding, reclassified from extreme risk in 2019–20 to high-risk in 2020–21)	Similar to last year, the council spent restricted funds for unrestricted purposes, without the appropriate approvals under the LG Act. As council pooled its restricted funds within a common bank account, it was not clear which category of restricted funds has been inappropriately spent. This indicates the council's oversight of the restricted funds was not always effective.
Central Coast Council (repeat finding)	Council did not have a policy document or framework setting out legislative and operational requirements for each category of externally restricted funds. Council was unable to provide the basis for some externally restricted funds.
Mid-Western Regional Council (repeat finding)	Council did not fully comply with its obligations under the <i>Unclaimed Money Act 1995</i> , as funds held by council for more than six years should be assessed for remittance to Revenue NSW.

## Common findings

The common governance findings reported in audit management letters related to deficiencies in corporate governance policies, fraud controls and legislative compliance.

### Key corporate governance policies were not in place or regularly updated at 70 councils

The common areas where councils were missing governance policies are summarised below.

Area of corporate governance with absent or outdated policies	Number of councils
Risk management	27
Contract management	19
Business continuity plan	21
Gifts and benefits	9
Public interest disclosures	4
Other policies not formally adopted or reviewed timely	29

Corporate governance policies are essential for ensuring councils operate in accordance with external and internal requirements. It is important that the rules, standards and expectations are clearly outlined, and staff are provided adequate guidance to inform their actions.

Further issues were identified in contract management for 30 councils. While contract management policies were in place for these councils, we identified deficiencies in their contract management practices or contract register management. There is an increased risk of non-compliance with the *Government Information (Public Access) Act* or contractual terms.

**Deficiencies in fraud control processes at 34 councils**

Thirty-four councils reported deficiencies in fraud control processes, reduced from 41 councils reported in 2019–20.

The following fraud control deficiencies were reported in audit management letters.

Fraud control deficiencies	Number of councils
Council did not provide fraud awareness training to staff	19
Council did not perform a fraud risk assessment	19
Council did not have a fraud and corruption prevention policy, or it was outdated	14
Council did not require staff to provide annual attestations to the Code of Conduct	12

Effective fraud controls and ethical frameworks help protect councils from events that risk serious reputational damage and financial loss.

**Lack of legislative compliance policies or register at 25 councils**

Twenty-five councils did not have a sufficient legislative compliance policy or register. This has improved from 38 councils reported in 2019–20.

Legislative compliance frameworks assist councils to monitor compliance with key laws and regulations. This is important as councils provide a broad range of services to the community and are subject to many legal requirements. A legislative breach can attract penalties, impact service delivery and cause significant reputational damage.

**Twenty-seven councils do not have an internal audit function**

Internal audit is an important element of an effective governance framework as it supports a risk and compliance culture. Internal audit provides assurance over council's governance practices and internal control environment, and identifies where performance can improve.

The LG Act also envisages the establishment of an internal audit function in each council to support the work of the audit, risk and improvement committee (ARIC). OLG released a discussion paper in September 2019 'A New Risk Management and Internal Audit Framework for Local Councils in NSW', detailing the proposed new framework.

In August 2021, OLG issued draft 'Guidelines for Risk Management and Internal Audit for Local Councils in NSW' to guide the operations of ARICs and to require councils to have a risk management framework and internal audit function to support and inform their operations. These guidelines are still in draft at the time of writing this report.

Under the proposed OLG guidelines, councils and joint organisations are not required to establish a risk management framework and internal audit function that complies with the guidelines until 30 June 2024.

In 2020–21, 101 councils have established an internal audit function, with majority of these functions outsourced from external providers. Twenty-seven councils do not have an internal audit function.

**One hundred and eleven councils have established an audit, risk and improvement committee**

The requirement for all councils and joint organisations to establish an audit, risk and improvement committee was further deferred to 4 June 2022 due to the COVID-19 pandemic. Councils and joint organisations are permitted under section 428B of the LG Act to enter into arrangements with other councils or joint organisations to share ARICs.

As at 30 June 2021, 111 councils have established an ARIC. Of the 111 councils, seven have a shared arrangement with other councils.

**Councils and joint organisations that do not currently have an ARIC should take action to ensure they comply with legislative requirements**

Audit, risk and improvement committees are an important contributor to good governance. They help councils to understand strategic risks and how they can mitigate them. An effective committee helps councils to build community confidence, meet legislative and other requirements, and meet standards of probity, accountability and transparency.

Opportunities could also exist for councils to gain efficiencies by increasing the number of shared ARICs where practical by scale or geographical location to do so.

ARICs can play an important role in providing feedback on financial statements before they are submitted to audit as part of management's quality review process.

Forty-four councils' (40%) ARICs reviewed financial statements before submission to the Audit Office, while 67 councils' (60%) ARICs did not review financial statements before submission to the Audit Office.

Only 16 (14%) ARICs obtained certification of effectiveness of internal controls from management to support the financial statements and information.

There is an opportunity for OLG to issue guidance to councils to develop an internal control certification process as better practice. In the NSW state sector, Chief Financial Officers provide an annual certification as to the effectiveness of its systems, processes and internal controls for ensuring that financial information is relevant and reliable.

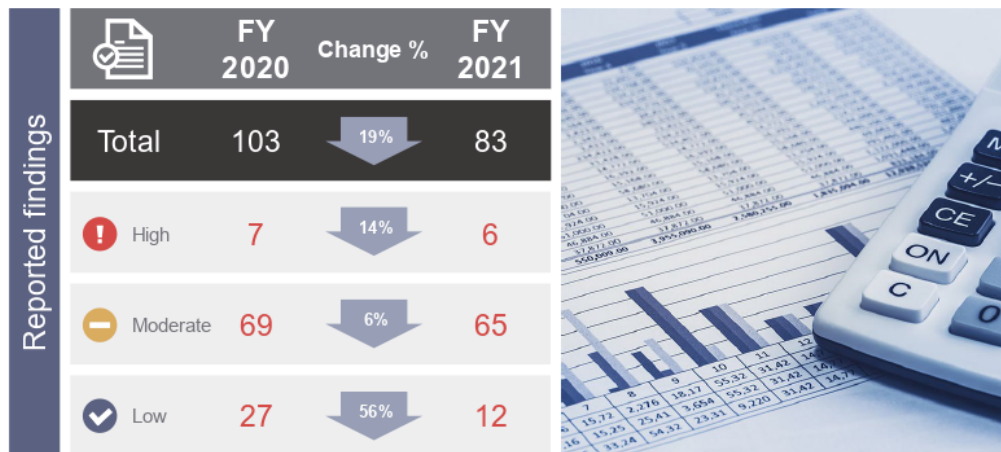


### 3.3 Financial reporting

Financial reporting is an important element of good governance. Confidence in and transparency of public sector decision-making is enhanced when financial reporting is accurate and timely.

#### Financial reporting findings decreased from 103 to 83

Audit management letters reported 83 findings relating to financial reporting (2019–20: 103 findings). Forty-five per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

#### High-risk findings

High-risk findings, including three repeat findings, one new finding and two repeat findings elevated from moderate risk in 2019–20, were reported at the following councils. Three of the 2019–20 high-risk findings were resolved, and another three were reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

Council	Description
<b>2020–21 findings</b>	
Albury City Council (new finding)	<p>The quality and timeliness of council's financial reporting process was significantly impacted by:</p> <ul style="list-style-type: none"> <li>the recent organisational restructure resulting in a significant reduction of resources in the finance team</li> <li>addressing a technical issue with the indexation of council's building assets</li> <li>the implementation of a new general ledger structure where management faced challenges reconciling opening general ledger balances to the previous year's audited financial statements.</li> </ul> <p>The quality of work papers supporting the financial statements requires improvement, as there were numerous misstatements and disclosure changes made to the financial statements.</p> <p>Council made multiple requests for extensions to lodge the audited financial statements. These requests were made before the existing deadlines (being both legislative deadline and approved extensions). The approval of two extension requests was not provided by OLG prior to the existing deadlines. Consequently, on two occasions, council did not submit audited financial statements to OLG within agreed deadlines. This was assessed as non-compliance with the LG Act. The minister backdated her approval of the extension to the date that council submitted the request.</p>

Council	Description
Armidale Regional Council (repeat finding elevated from moderate to high-risk in 2020–21)	<p>The financial statements and supporting work papers contained the following issues:</p> <ul style="list-style-type: none"> <li>• Key documents including accounting position papers were provided late. This included the treatment of a material prior period error relating to the revaluation of transport network infrastructure assets.</li> <li>• Some key work papers provided did not reconcile to the financial statements.</li> <li>• Financial statements contained numerous errors, omissions and disclosure deficiencies.</li> </ul>
Central Coast Council (repeat finding)	<p>The financial statements required significant amendments to correct material misstatements and disclosure deficiencies. The submitted financial statements did not:</p> <ul style="list-style-type: none"> <li>• include complete and accurate infrastructure, property, plant and equipment revaluation results</li> <li>• consider the IFRIC 'Software as a Service' (SaaS) agenda decision published in April 2021</li> <li>• correctly account for the fair value of operational land</li> <li>• correctly account for newly found assets.</li> </ul> <p>There was no documented evidence of timely quality review of the financial statements and associated supporting work papers.</p>
MidCoast Council (repeat finding)	<p>The financial statements contained numerous misstatements and disclosure deficiencies. The financial statements' quality review processes and the quality of supporting work papers require significant improvements.</p>
Shoalhaven City Council (repeat finding)	<p>The financial statements presented for audit contained a significant number of misstatements and disclosure deficiencies. Multiple versions of the financial statements and trial balance were provided to the audit team and working papers did not satisfactorily reconcile to the financial statements.</p>
Wollondilly Shire Council (repeat finding elevated from moderate to high-risk in 2020–21)	<p>The quality and timeliness of council's financial reporting process was significantly impacted by the absence of several key staff due to the COVID-19 pandemic, flooding events and resignation of staff involved in the process.</p> <p>This also led to significant delays in the finalisation of infrastructure, property, plant and equipment comprehensive revaluation, resolving prior period errors relating to community land, work in progress and accounts payable, and the preparation of the financial statements.</p> <p>The financial statements contained numerous monetary misstatements and disclosure deficiencies.</p> <p>The council made multiple requests for extensions to lodge the audited financial statements within the extension deadlines. The council was last granted an extension to 27 April 2022. However, the council missed the revised extension deadline without an approved extension from OLG, which is a non-compliance with the LG Act.</p>

### Common findings

Common findings across councils include:

- Financial statements submitted for audit for 30 councils contained numerous errors and disclosure deficiencies.
- Sixteen councils continued to not appropriately apply or adequately assess the impact of the new accounting standards that were effective in 2019–20.
- Lack of preparation for the audit, such as having a financial reporting plan, impacted the timeliness of financial reporting at 21 councils.
- Eleven councils have deficiencies in related parties' policies and disclosure.





Further analysis and insights on financial reporting findings are detailed in Chapter 2 'Audit results'.

### 3.4 Financial accounting

Financial accounting refers to the processes adopted by management to record and review financial information across the business. Councils use a combination of manual and automated processes and digital information systems to process financial information. Effective processes support the accuracy and completeness of information presented in the financial statements.

#### Financial accounting findings decreased from 115 to 79

Audit management letters reported 79 findings relating to financial accounting (2019–20: 115 findings). Thirty-eight per cent were repeat or partial repeat findings.

		FY 2020	Change %	FY 2021
Reported findings	Total	115	↓ 31%	79
	 High	4	↑ 25%	5
	 Moderate	69	↓ 33%	46
	 Low	43	↓ 35%	28



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.



## High-risk findings

Five high-risk findings, including one new finding, two repeat findings and two repeat findings elevated from moderate risk in 2019–20, were reported at the following councils. One of the 2019–20 high-risk findings was resolved, and another was reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

Council	Description
<b>2020–21 findings</b>	
Central Coast Council (repeat finding)	Some monthly account reconciliations were not prepared and reviewed on a timely basis.  Council maintains several information systems for processing revenue transactions. Each day, the sub-ledger systems interface with the general ledger to transfer and update revenue data. Findings identified that: <ul style="list-style-type: none"> <li>reconciliations were not performed between the general ledger and sub-ledger systems to ensure all transactions were reflected correctly in the general ledger</li> <li>the interface transfer often required manual intervention to ensure the transfer occurred. There is no audit trail or evidence of review of changes made to these transfers.</li> </ul>
Dungog Shire Council (repeat finding)	Council lacks segregation of duties over the processing of manual journals. Manual journals can be prepared and posted to the system by the same employee without an independent review.
Hilltops Council (repeat finding elevated from moderate to high-risk in 2020–21)	Council was unable to identify the original source of unexplained bank reconciliation differences of \$0.2 million. In addition, the bank reconciliation contained cut-off errors which resulted in further audit adjustments to ensure cash and investments balance was not materially misstated at 30 June 2021.
MidCoast Council (repeat finding elevated from moderate to high-risk in 2020–21)	Since migrating to a single finance system in the second half of 2019, council had not formalised its month-end financial reporting procedures such as the reconciliations of key control accounts in 2020–21.
Snowy Monaro Regional Council (new finding)	Council continues to face financial pressures in 2020–21. Council reported nil unrestricted cash at 30 June 2021 and 30 June 2020. To meet the day-to-day operational requirements, council has been utilising internally restricted funds, which is decreasing. It was also recommended for management to improve the robustness of cashflows forecasting and to regularly monitor cash balances.

## Common findings

The common financial accounting findings reported in audit management letters related to deficiencies in key account reconciliations and processing of manual journal adjustments.

### Lack of segregation of duties with manual journal adjustments at 24 councils

There was a lack of segregation of duties over the posting of manual journal adjustments to financial information at 24 councils. An independent review of manual journal adjustments is important to reduce the risk of fraud or error in the financial statements.

### Key account reconciliations were not prepared in a timely manner or independently reviewed at 23 councils

Regular reconciliation of financial information ensures timely identification of errors and facilitates a more efficient audit process. It was reported in audit management letters that:

- there was no evidence of independent review of key account reconciliations at 17 councils
- ten councils did not reconcile all key balances in the financial statements in a timely manner.

### 3.5 Asset management

Councils own and manage large infrastructure asset portfolios to support the delivery of community services. Asset management involves operational aspects such as maintenance and physical security, as well as accounting procedures such as valuing assets in accordance with accounting standards.

**Asset management findings decreased from 304 to 288**

Audit management letters reported 288 findings relating to asset management (2019–20: 304 findings). Thirty-nine per cent (112 findings) were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

#### High-risk findings

High-risk findings increased from 21 to 69 in 2020–21, including 61 new findings, six repeat findings and two repeat moderate findings elevated to high-risk. They were reported at the following councils. The increase was mainly due to the 60 new high-risk findings in relation to the unrecorded rural firefighting equipment.

Seven of the 2019–20 high-risk findings were resolved, and eight findings were reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

**Sixty councils had a high-risk finding reported in their audit management letter relating to unrecorded rural firefighting equipment**

Chapter 2 'Audit results' reported 68 councils did not record rural firefighting equipment in their financial statements. This was reported as a high-risk finding for 60 councils, a moderate risk finding for seven councils, and was not reported for one council where the assets were clearly trivial. A moderate risk was reported when council performed additional procedures to demonstrate that the unrecorded amount was not material to the financial statements.

**2020–21 councils with high-risk findings on unrecorded rural firefighting equipment**

Albury City Council	Coolamon Shire Council	Lachlan Shire Council	Snowy Valleys Council
Armidale Regional Council	Coonamble Shire Council	Leeton Shire Council	Sutherland Shire Council
Balranald Shire Council	Cootamundra-Gundagai Regional Council	Lismore City Council	Tamworth Regional Council
Bathurst Regional Council	Edward River Council	Lithgow City Council	Temora Shire Council
Bellingen Shire Council	Federation Council	Liverpool Plains Shire Council	Tenterfield Shire Council
Berrigan Shire Council	Forbes Shire Council	Lockhart Shire Council	The Hills Shire Council
Bland Shire Council	Glen Innes Severn Council	Mid-Western Regional Council	Tweed Shire Council
Bogan Shire Council	Greater Hume Shire Council	Moree Plains Shire Council	Upper Hunter Shire Council
Bourke Shire Council	Griffith City Council	Murray River Council	Upper Lachlan Shire Council
Brewarrina Shire Council	Gunnedah Shire Council	Murrumbidgee Council	Wagga Wagga City Council
Byron Shire Council	Gwydir Shire Council	Narrabri Shire Council	Walgett Shire Council
Campbelltown City Council	Hilltops Council	Narrandera Shire Council	Warren Shire Council
Carrathool Shire Council	Junee Shire Council	Orange City Council	Weddin Shire Council
Central Darling Shire Council	Kempsey Shire Council	Queanbeyan-Palerang Regional Council	Wollondilly Shire Council
Clarence Valley Council	Kyogle Council	Snowy Monaro Regional Council	Yass Valley Council

Chapter 2 'Audit results' includes more information on the recognition of rural firefighting equipment.

**Other high-risk findings**

Nine other high-risk findings that related mainly to data integrity of asset registers, fair value assessments and the asset valuation process, were reported in the following councils.

Council	Description
<b>2020–21 findings</b>	
Bellingen Shire Council (repeat finding)	In 2019–20, council identified a prior period error due to road and bulk earthwork assets not previously recorded in the financial statements.  Council's fixed assets register (FAR) is not sufficiently secured from unauthorised changes as it is maintained in an excel spreadsheet. The FAR did not include key information fields such as acquisition date. Errors occur for some asset classes when they are capitalised to the FAR in one year and then componentised in the following year. Various asset registers were not fully integrated and reconciled to the FAR.
Central Coast Council (two repeat findings)	Two repeat high-risk findings were reported: <ul style="list-style-type: none"> <li>• Council certified that they were unable to provide sufficient evidence to support the carrying value of roads, bridges, footpath, bulk earthworks, stormwater drainage, water supply network and sewerage network assets as at 30 June 2021. This is because asset data used by council to value these assets could not be reconciled by council to its financial records prior to the valuation. The asset data was sourced from a non-financial system that did not include financial information or reference data that could be used to identify assets in council's fixed asset register.</li> <li>• Council's initial fair value assessment of operational land did not consider relevant market value movements in 2020–21. This led to an incorrect conclusion that the market value of operational land had not materially moved since the last valuation in 2018. Council reformed its assessment and recognised a \$85.8 million increase in the fair value of operation land at 30 June 2021.</li> </ul>
Kempsey Shire Council (new finding)	The 2020–21 audit process identified a number of community land, land improvement and recreational assets of \$7.6 million that were not previously recorded in the financial statements.  Other revaluation errors were also detected and corrected as part of the audit process. Quality control and documentation of management's review on asset revaluation was not sufficient.
MidCoast Council (repeat finding)	Issues identified throughout the asset valuations process: <ul style="list-style-type: none"> <li>• Lack of preparedness on accounting for the impact of natural disasters and consequential impacts on the carrying values reported in the financial statements.</li> <li>• Lack of documentary evidence to support assumptions and judgements used in the unit rates applied for assets revalued.</li> <li>• Lack of documentary evidence to support council's rationale, methodology and approach in conducting its valuation process.</li> <li>• Absence of a thorough and robust quality assurance review by management over the valuation.</li> <li>• The quantum of newly identified assets highlighting deficiencies in asset recording by council.</li> </ul>

Council	Description
Murray River Council (two repeat findings)	<ul style="list-style-type: none"> <li>Material errors in the valuation process resulted in corrected errors in the financial statements.</li> <li>Omission and duplication of bridge assets identified during the valuation process.</li> <li>Asset reconciliation was not completed appropriately or independently reviewed.</li> <li>Capitalised work-in-progress ready for use assets were not depreciated.</li> <li>Asset management policy was not regularly reviewed and updated.</li> </ul>
Queanbeyan-Palerang Regional Council (new finding)	<ul style="list-style-type: none"> <li>Condition ratings for buildings and open space assets were incorrectly applied resulting in a \$20.6 million understatement.</li> <li>Found assets from transport infrastructure and buildings were not included in the general ledger resulting in a \$6.1 million understatement.</li> <li>Significant delays in providing valuation documents to the audit team.</li> </ul>
Strathfield Municipal Council (repeat finding elevated from moderate to high-risk in 2020–21)	<p>Council did not have formal processes to record direct and indirect costs to capital projects in a timely manner. There were no formal procedures governing the direct and indirect costs capitalisation review to ensure they remain appropriate.</p> <p>This issue was raised in the 2019 management letter but remained unresolved by management in 2020–21.</p>

## Common findings

The common asset management findings reported in audit management letters related to deficiencies in asset revaluation processes, maintenance of information in asset management systems and landfill rehabilitation accounting practices.

### Weak processes over maintenance, completeness and security of fixed asset registers at 67 councils

Maintaining accurate and up-to-date asset data helps councils to make appropriate decisions around asset management. The common issues reported in audit management letters relating to fixed asset registers are summarised below.

Fixed asset register issues reported in audit management letters	Number of councils
Council did not maintain an accurate and complete fixed register. This included: <ul style="list-style-type: none"> <li>issues with duplicate or missing assets</li> <li>incorrect categorisation of assets</li> <li>incorrect componentisation of assets.</li> </ul>	46
Council did not regularly update their fixed asset register for additions and disposals.	33
Asset registers were not maintained in a secure format (e.g. use of unlocked spreadsheets or multiple systems).	13

We continue to see weak processes over maintenance and security of fixed asset registers. There continues to be issues with accuracy and completeness of the asset register, duplication or missing assets, and asset registers not being reconciled with the asset management system.

Prior period errors continue to predominately relate to the quality of asset records and asset revaluation errors such as found and duplicate assets. In particular, completeness of developer contributions/gifted assets in growth councils needs improvement.



**Deficiencies in infrastructure asset revaluation processes at 58 councils**

Councils manage a significant range and value of infrastructure, property, plant and equipment. These assets are significant to the financial statements of councils and are subject to management judgements and estimates when determining their fair values. These judgements and estimates often require the assistance of a qualified expert valuer.

Deficiencies were identified in infrastructure asset valuations at 58 councils, including:

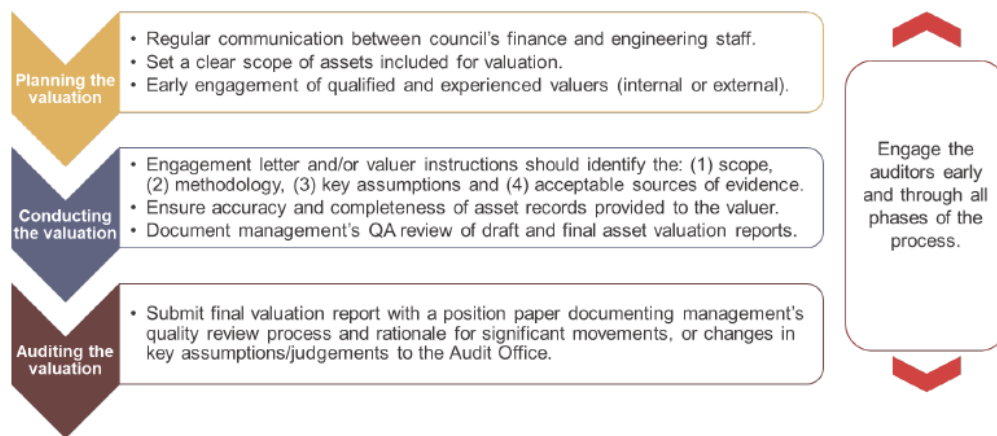
- inadequate documentation to support key assumptions and judgements applied including:
  - useful lives and condition assessments
  - unit rates used to value infrastructure assets
- incorrect classification of assets
- incorrect exclusion of some assets from valuations
- management not documenting their quality review over the asset valuation.

**Opportunities for councils to improve the valuation process**

Performing asset valuations earlier gives time for management and auditors to complete all requirements before the financial statements are prepared and allows earlier sign offs to be achieved.

Councils should have a project plan in place to manage the asset valuation process. Suggested deliverables to be included in a timetable for council valuations may include the following:

**Project plan asset valuations**



**Improvements to council landfill rehabilitation accounting practices required at 26 councils**

Australian Accounting Standards require a provision for landfill remediation when the obligation to operate landfill sites would result in cash outflows for the council, and when it can be reliably measured. Such provisions should be annually reassessed for changes in assumptions, legal requirements and emergence of new landfill remediation techniques.

Common findings identified in council landfill rehabilitation accounting practices include:

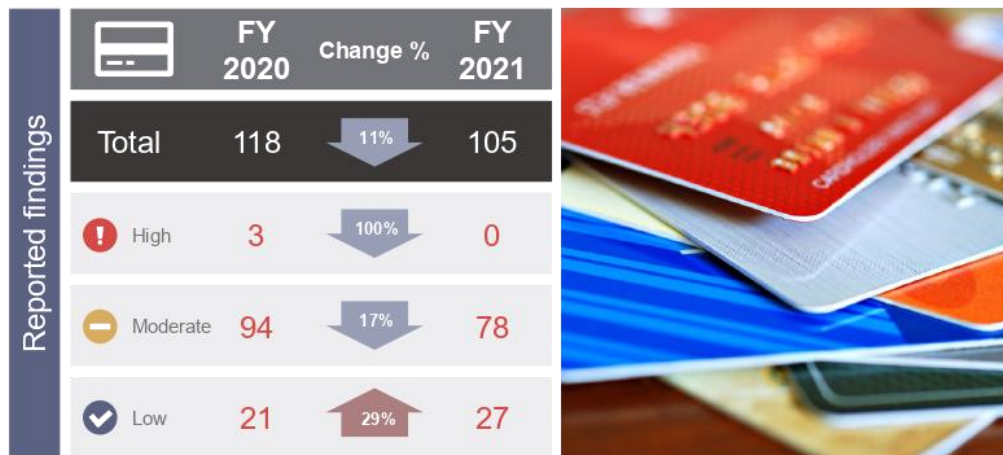
- no formal assessment of obligations made to rehabilitate landfill sites
- insufficient documentation of provision calculations to support inputs, assumptions and key data for accounting of the provisions
- costs associated with post-closure, aftercare and monitoring of landfill sites in their provisions not included in the assessment.

### 3.6 Purchases and payables

Councils spend substantial funds each year to procure goods and services. It is important there is appropriate probity, accountability and transparency in procurement to reduce the risk of unauthorised purchases, corrupt and fraudulent behaviour, and value for money not being achieved.

**Purchases and payables findings decreased from 118 to 105**

Audit management letters reported 105 findings relating to purchases and payables (2019–20: 118 findings). Fifty-five per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

#### High-risk findings

There were no high-risk findings related to purchases and payables processes in 2020–21. Two of the 2019–20 high-risk findings were resolved, and one finding was reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

#### Common findings

The common purchases and payables findings reported in audit management letters related to controls around purchase orders, review of creditor information and deficiencies in credit card management practices.

**Controls around purchase orders were not enforced or absent at 37 councils**

At 12 councils, it was identified that employees could approve their own purchase orders. At five councils, it was identified that purchase orders were approved without appropriate delegation. It is important there is segregation of duties and appropriate delegation in procurement to reduce the risk of fraud and misuse of public money.

Purchase orders were approved after the receipt of goods or services at 28 councils. Purchase orders should be issued before requesting goods or services to reduce the risk of unauthorised transactions.

**Insufficient review of changes to creditor information at 29 councils**

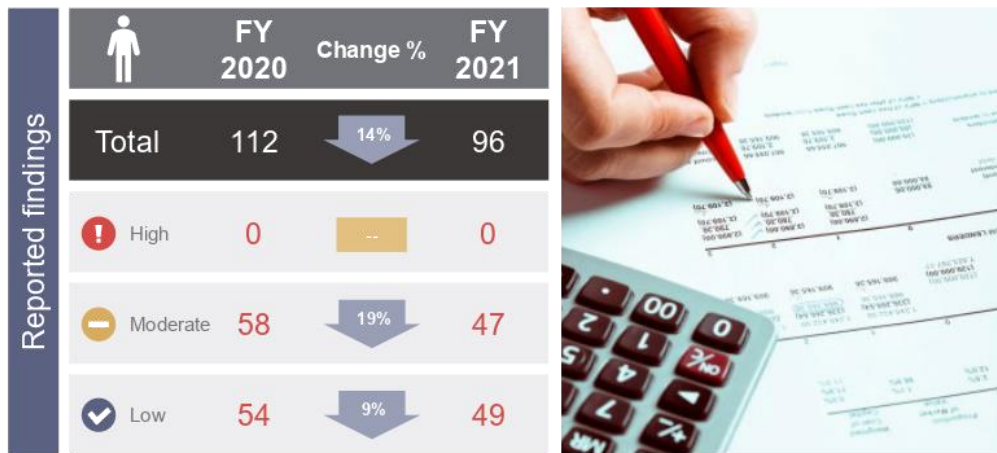
Twenty-nine councils did not perform sufficient review of changes to creditor information in the supplier master file, including bank account details. This increases the risk of transactions paid to incorrect accounts, resulting in financial losses for councils. Councils should review each change or perform regular collective review of changes.

### 3.7 Payroll

Effective payroll processes ensure councils manage their workforce in compliance with legislation, employment agreements and the Local Government Award. Payroll processes and information systems should protect the integrity of employee records and timesheet data to ensure accurate payments to employees and leave entitlement calculations.

**Payroll findings decreased from 112 to 96**

Audit management letters reported 96 findings relating to payroll processes (2019–20: 112 findings). Sixty per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

#### High-risk findings

There were no high-risk findings related to payroll processes in 2020–21 (2019–20: Nil).

#### Common findings

The common payroll findings reported in audit management letters related to deficiencies in the review of employee payroll data and excessive annual leave balances.

**Excessive annual leave balances were reported at 49 councils**

Managing excess annual leave was a challenge for councils given the recent emergency events. Councils continued to deliver essential services in uncertain times and in a disrupted work environment. Many council employees, particularly in frontline roles, deferred leave plans and have taken little or no annual leave. To support council employees during the COVID-19 pandemic, legislative amendments were made to allow councils and their employees to agree to:

- council making a payment to an employee in lieu of annual leave, provided the employee will still have a balance of at least four weeks of leave remaining
- an employee taking annual leave at double or half pay.

**Changes to employee payroll data are not reviewed at 26 councils**

Twenty-six councils did not have adequate processes in place to review changes to employee payroll data. This includes instances where changes are reviewed, but not by an independent person. This increases the risk of unauthorised changes or errors remaining undetected, resulting in financial loss to councils.



### 3.8 Cash and banking

Councils process a high volume of transactions each year. Effective controls over cash collection, disbursements and reconciliations reduce the risk of fraud and error.

**Cash and banking findings decreased from 53 to 36**

Audit management letters reported 36 findings relating to cash and banking (2019–20: 53 findings). Thirty-six per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

#### High-risk findings

There were no high-risk findings related to cash and banking processes in 2020–21. One high-risk finding was raised in 2019–20 and it was resolved.

#### Common findings

The common cash and banking findings reported in audit management letters related to the lack of security of payment files and the lack of segregation of duties in the cash handling process.

**Outdated bank signatories at 14 councils**

Bank signatories are not being removed on a timely basis. Fourteen councils still had their former employees listed as an account signatory for bank accounts. This increases the risk of unauthorised transactions.

**Deficiencies in the cash handling processes at 12 councils**

Deficiencies in the cash handling process were identified at 12 councils, including lack of daily cashier reconciliation and lack of segregation of duty. This increases the risk of undetected balancing errors and misappropriation of cash or cheques.

**Lack of security of payment files for pay runs at nine councils**

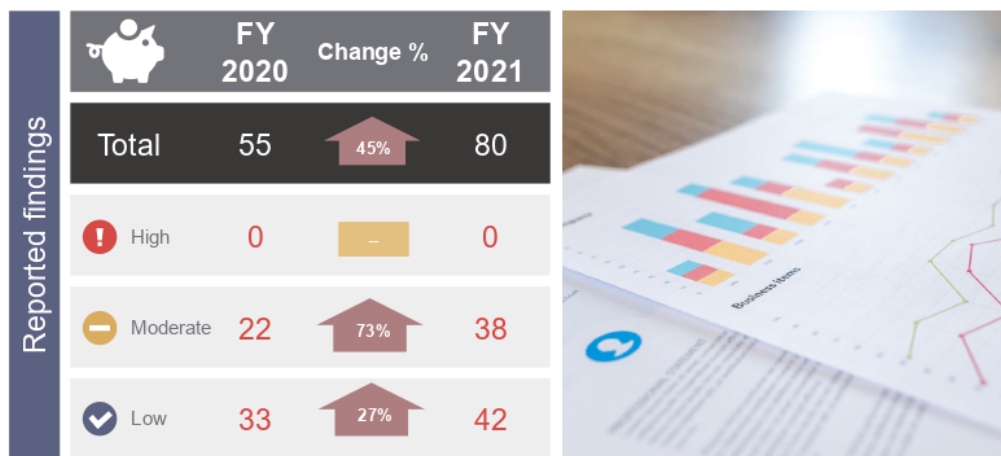
Nine councils did not encrypt Electronic Funds Transfer (EFT) payment files from editing or sufficiently restrict access to payment files on the network before they were uploaded to online banking portals. This increases the risk of unauthorised or fraudulent transactions.

### 3.9 Revenue and receivables

Councils receive revenue from a range of different sources, including rates and annual charges, user charges and fees, operating and capital grants and contributions, and other revenue (such as interest, investments and asset disposals). It is important that councils have appropriate internal controls to accurately record revenue and receivables in compliance with accounting standards and legal requirements.

**Revenue and receivable findings increased from 55 to 80**

Audit management letters reported 80 findings relating to revenue and receivables (2019–20: 55 findings). Forty per cent were repeat or partial repeat findings.



Source: Audit management letters for 30 June 2020 and 30 June 2021 audits.

#### High-risk findings

There were no high-risk findings related to revenue and receivable processes in 2020–21 (2019–20: Nil).

#### Common findings

The common revenue and receivables findings reported in audit management letters related to deficiencies in the review of changes to fee tables and property data in council rates systems, and inappropriate revenue recognition practices.

**Lack of review of changes to fee tables and property data in the rating system at 26 councils**

Council systems contain fee tables and property information, which is used to determine rates and annual charges levied on different properties. Twenty-six councils do not adequately review changes for accuracy and appropriateness. This increases the risk of errors in recording rates and annual charges in the financial statements.

**Inappropriate revenue recognition at 15 councils**

Twelve councils had findings raised relating to their revenue recognition practices, including:

- no effective internal controls to ensure the completeness of revenue activities recorded
- deficiencies in grants recognition that resulted in misstatement in the financial statements
- use of cash accounting basis to recognise some revenue transactions, rather than accruals.

Deficiencies in revenue recognition practices resulted in 57 errors identified in councils' financial statements, totalling \$93.4 million.

### 3.10 Information technology (IT)

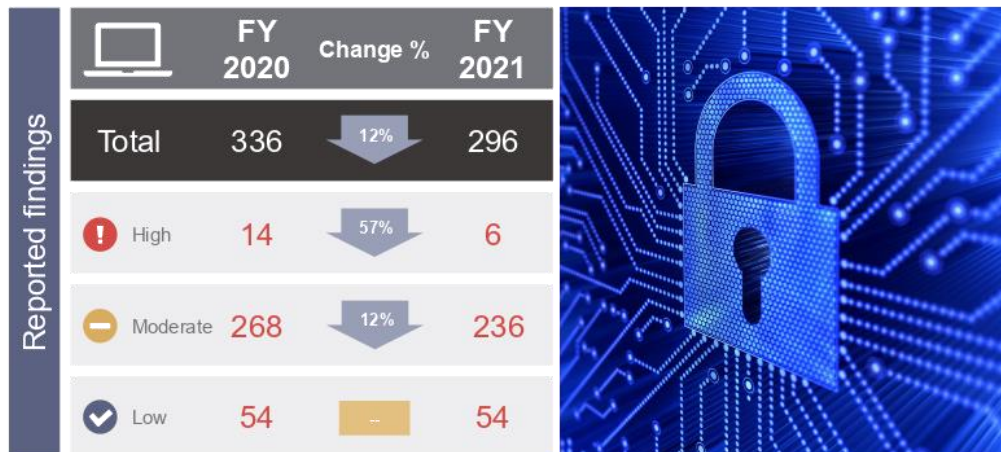
Councils rely on IT to deliver services and manage information. While IT delivers considerable benefits, it also presents risks that councils need to address. IT general controls relate to the procedures and activities designed to ensure confidentiality, and integrity of systems and data. These controls underpin the integrity of financial reporting.

Financial audits involve the review of IT general controls relating to key financial systems supporting the preparation of council financial statements, addressing:

- policies and procedures
- IT risk management
- user access management
- privileged user access restriction and monitoring
- system software acquisition, change and maintenance
- disaster recovery planning
- cybersecurity and patch management.

**IT findings decreased from 336 to 296**

Audit management letters reported 296 findings relating to IT (2020–21: 336 findings). Sixty-seven per cent were repeat, partial repeat or ongoing findings.



Source: Audit management letters for 30 June 2021 and 30 June 2022 audits.

## High-risk findings

High-risk findings, including repeat and ongoing findings, were reported at the following councils. One 2019–20 high-risk finding was not resolved, and seven findings were reclassified to moderate risk in 2020–21 as management has taken action to mitigate the risks.

High-risk findings detailed below relate to gaps in system implementation and user access controls.

Council	Description
<b>2020–21 findings</b>	
Bayside Council (new finding)	One high-risk finding reported for gaps found in council's new financial system implementation process: <ul style="list-style-type: none"> <li>Documentation of data migration testing lacked detail.</li> <li>User access rights were copied from the previous year and validated after the system go live date.</li> <li>Lack of segregation of duties as privileged access rights to the new system were given to the CFO to diagnose and resolve issues.</li> </ul>
Dubbo Regional Council (repeat finding*)	One high-risk finding reported in relation to gaps found in council's information technology access controls: <ul style="list-style-type: none"> <li>No formal periodic review of user access rights to ensure access levels are commensurate with job responsibilities.</li> <li>Audit logs of privileged account activity can be amended or deleted.</li> <li>Lack of evidence on monitoring of privileged user activity.</li> <li>There were gaps in the password configuration.</li> </ul>
Greater Hume Shire Council (repeat finding)	Audit logs of privileged users are not maintained and reviewed.
Lismore City Council (repeat finding*)	One high-risk finding reported in relation to gaps found in council's information technology access controls: <ul style="list-style-type: none"> <li>No periodic review of activities by generic user accounts.</li> <li>No periodic review of users who have the ability to purge access logs.</li> <li>Audit logs of privileged users are not periodically reviewed.</li> </ul>
Nambucca Valley Council (repeat finding*)	One high-risk finding reported in relation to gaps found in council's information technology access controls: <ul style="list-style-type: none"> <li>No formal periodic review of user access rights to ensure access levels are commensurate with job responsibilities.</li> <li>Audit logs of privileged users are not monitored by an independent employee.</li> </ul>
Wagga Wagga City Council (repeat finding*)	One high-risk finding reported in relation to gaps found in council's information technology access controls: <ul style="list-style-type: none"> <li>Generic accounts are being used and shared across users, with no formal process to remove access for generic accounts when it is no longer required.</li> <li>Payroll system's superuser is also responsible for processing payroll data.</li> <li>No formal policies and procedures for monitoring and managing privileged users.</li> <li>No formal periodic review of user access rights to ensure access levels are commensurate with job responsibilities.</li> <li>Audit logs of privileged users are not reviewed for the finance and payroll systems.</li> <li>Due to system limitations, audit logs or privileged access activities cannot be generated in the asset management system.</li> </ul>

\* The findings identified were previously reported as separated moderate-risk findings and yet to be resolved by management as part of the 30 June 2021 audit. Due to the aggregated risk of the findings, these have been reassessed as a high-risk finding.



## Common findings

The common IT findings reported in audit management letters related to deficiencies in IT policies and procedures, lack of a cybersecurity framework, and controls and gaps in user access management processes. This is aligned with what we reported in the prior year's report.

### IT policies and procedures were outdated or not in place at 59 councils

Fifty-nine councils did not formalise and/or regularly review their key IT policies and procedures. It is important for key IT policies to be formalised and regularly reviewed to ensure emerging risks are considered and policies are reflective of changes to the IT environment. Lack of formal IT policies and procedures may result in inconsistent and inappropriate practices and an increased likelihood of inappropriate access to key systems.

### Lack of periodic user access review at 42 councils and insufficient control over privileged users at 73 councils

The following common access management findings were identified:

- Forty-two councils did not perform a periodic user access review to ensure users' access to key IT systems were appropriate and commensurate with their roles and responsibilities.
- Seventy-three councils had gaps in privileged users management process. This includes gaps in restriction of privileged users or monitoring of the privileged accounts' activity logs.

Where robust access management processes are not in place, inappropriate access may exist. This increases the risk of unauthorised transaction or modification of sensitive data and transactions. The common findings above may be rated high-risk when there are no mitigating controls to prevent or detect any unauthorised transactions.

### Cybersecurity frameworks and related internal controls were not in place at 65 councils

The NSW Cybersecurity Policy states that the term cybersecurity covers all measures used to protect systems and information processed, stored or communicated on these systems from compromise of confidentiality, integrity and availability. Strong cybersecurity is an important component of the NSW Beyond Digital Strategy, enabling the effective use of emerging technologies and ensuring confidence in the services provided by NSW Government.

While there is currently no requirement for councils to comply with the NSW Government's Cybersecurity Policy, councils may find it useful to refer to the policy for further guidance.

Cybersecurity findings were reported in 65 councils as they did not have at least one of the following governance and internal controls to manage cybersecurity such as having a:

- cybersecurity framework, policy and procedure
- register of cyber incidents
- simulated cyber attack testing (penetration testing)
- cybersecurity training and awareness program.

The Report on Local Government 2019 recommended for the Office of Local Government (OLG) within the Department of Planning and Environment to develop a cybersecurity policy by 30 June 2021 to ensure cybersecurity risks over key data and IT assets are appropriately managed across councils, and key data is safeguarded. As at the date of this report, this policy has not been completed and published. Refer to Appendix two for more information.

OLG needs to develop a cybersecurity policy to be applied by councils as a matter of high priority in order to ensure cybersecurity risks over key data and IT assets are appropriately managed across councils, and key data is safeguarded.

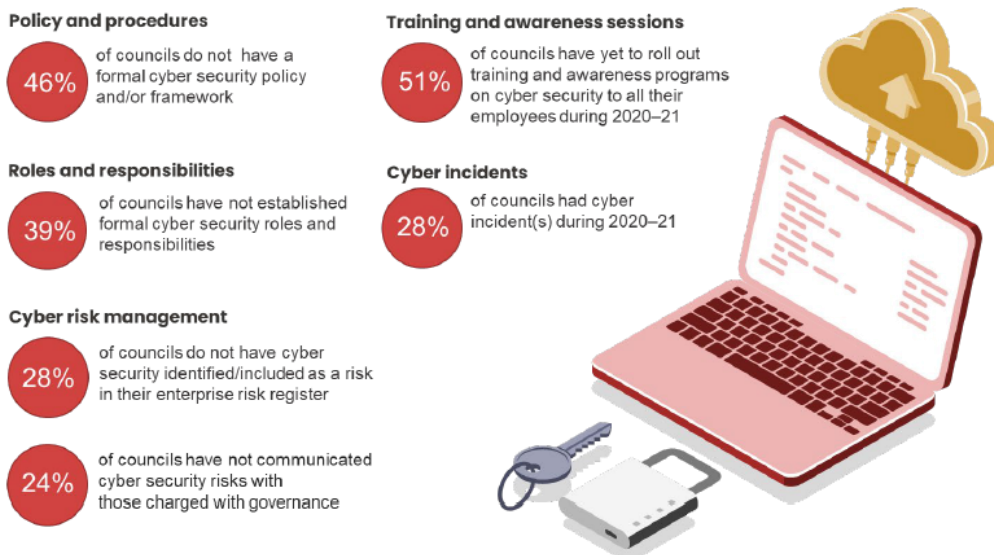
**Formal cybersecurity frameworks/policy in place for at 80 councils**

A cybersecurity framework consists of threat identification, protection, detection, response and recovery of IT systems.

In the absence of guidance from OLG, our additional data collection identified that 80 councils (54%) have developed a formal cybersecurity policy and/or framework. These councils have adopted guidance from the following sources to aid them in developing their cybersecurity policies/frameworks:

- Cybersecurity NSW
- The Australian Cybersecurity Centre (ACSC)
- International Organization for Standardization (ISO standards)
- The National Institute of Standards and Technology (NIST)
- Payment Card Industry Data Security Standard (PCI DSS)
- councils' internal/external experts' recommendations.

Based on data collected across all 150 councils and JOs:



Source: Additional data collection from 30 June 2021 audits.

Poor management of cybersecurity can expose councils to a broad range of risks, including financial loss, reputational damage and data breaches. Furthermore, without a formal policy and framework, formal roles and responsibilities, and involvement of those charged with governance, councils are at risk of inappropriate planning and execution of their cybersecurity responses, which may also lead to inefficient use of their cybersecurity budget.

**Fifty-one per cent of councils have yet to roll out cybersecurity training and awareness programs**

With 51% of councils yet to roll out cybersecurity training and awareness programs for staff, councils have an increased risk of being exposed to a cyber incident. In addition, of the 51% of councils that have not yet rolled out training and awareness programs, 57% did not cover their third parties who have access to the council's systems, in these training programs (i.e., contractors, consultants, vendors, partners).

Cyber criminals aggressively target certain staff by sending fraudulent emails, stealing credentials and sending malicious attachments, which deploy because they entice people to interact with them. The most targeted staff are those in senior positions and finance roles. Completion of cyber awareness training by all staff, contractors and third-party providers help them recognise potentially malicious emails and avoid inadvertently activating attachments and software designed to infect devices and steal data to be used by cyber criminals.

Twenty-eight per cent of councils advised that they had cyber incidents during the financial year, represented by 41 councils.

The Australian Cybersecurity Centre (ACSC) was established in 2014 to lead the Australian Government's work to improve cybersecurity. ACSC is part of the Australian Signals Directorate within the Defence portfolio. The ACSC reports that:

the focus on cybersecurity is increasing for government agencies as the digital footprint of government expands. Risks have been further amplified by the COVID-19 pandemic as governments increasingly transact and deliver services to citizens through online platforms. Cyber-attacks by criminals and state actors are becoming more sophisticated and complex and the attacks are more likely to be substantial in impact.

Further, the ACSC, through their 2020–21 Annual Cyber Threat Report, has revealed that they received over 67,500 cybercrime reports, a 13% increase on the previous financial year. ACSC also stated the self-reported losses from cybercrime during the 2021 financial year was totalling more than \$33 billion.

It is well known that cyber attacks are increasing, resulting in the need for councils to uplift their cybersecurity plans immediately.

The potential impacts from poor management of cybersecurity include:

- theft of corporate and financial information and intellectual property
- theft of money
- denial of service
- destruction of data
- costs of repairing affected systems, networks and devices
- legal fees and/or legal action from losses arising from denial-of-service attacks causing system downtime in critical systems
- third-party losses when personal information stored on government systems is used for criminal purposes.

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Monday to Friday.





**Item No:** 6.1  
**Title:** Governance Lighthouse Report as at 30 June 2022  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/00030 - D15265608  
Author: Alysha Croussos, Senior Governance Officer, Governance  
Manager: Edward Hock, Unit Manager Governance Risk and Legal  
Executive: Krystie Bryant, Director Corporate Services (Acting)

### **Recommendation**

- 1 *That the Committee note the Governance Lighthouse report as at 30 June 2022.*
- 2 *That the Committee recommend that this report and the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

*The information provided in this report is current as at 2/09/2022.*

### **Summary**

The purpose of this report is to provide the Committee with the Governance Lighthouse report as at 30 June 2022 (end of Q4), for their information.

The Governance Lighthouse report is updated at the end of each quarter in accordance with the Council resolution of 27 July 2020 and provided to the Audit, Risk and Improvement Committee prior to reporting to Council.

The Governance report was created to report against measures using the structure of the NSW Audit Office Governance Lighthouse. As well as quantitative information, the report includes commentary to provide context. It covers eight principles and 17 key governance components.

The Governance Lighthouse report for Q4 2021-22 is Attachment 1.

### **Attachments**

- 1 Governance Lighthouse Report - Q4 2021-22 D15315317

Governance Report Card - Central Coast Council



This quarterly report is based upon the Governance Lighthouse. (NSW Audit Office). It covers eight principles and 17 key governance components.

Report date: Quarter 4 - 2021/2022

**General Comments:**

**Quarter ending 30 June 2022**

During Q4, the Minister for Local Government confirmed that the local government election for Central Coast Council will be held on 14 September 2024. This announcement provides a timeframe for Council to achieve its strategic priorities and projects as outlined in its Organisational Blueprint, including the development of a strategic governance framework.

Council also saw the departure of Natalia Cowley, Director of Corporate Affairs and Chief Financial Officer. This departure subsequently saw structural changes within the directorate, including several units being moved to other directorates. The directorate itself has been retitled to Corporate Services.

Recruitment has commenced for the newly created Director Corporate Services role, with recruitment being handled by an external agency. Recruitment for the roles of Section Manager Governance, Team Leader Civic Support and Civic Support Officers continues to be a priority.

Governance Report Card - Central Coast Council

**Light house principle:** Stakeholder rights

Measure: Number of Code of Conduct complaints  
Reporting cycle: Quarterly  
Current as at: 30-Jun-22 Data provided by: Office of the Internal Ombudsman

	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Trend
# complaints (total)	5	9	4	9	7	4	2	0	↓
% Upheld	40%	0%	0%	11%	0%	0	100%	N/A	-
# complaints (Clrs + CEO)	2	4	0	3	1	0	0	0	-
% Upheld	50%	0%	N/A	0%	0%	N/A	N/A	N/A	-

Commentary: The suspension of Councillors has resulted in fewer Code of Conduct complaints over all.

Governance Report Card - Central Coast Council

Measure: % of Tier 1 customer complaints resolved at first point of contact  
Reporting cycle: Quarterly  
Current as at: 30-Jun-22 Data provided by: Section Manager Customer Service

	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Total 21/22
Number of community complaints	97	97	99	84	43	83	77	98	↓ 20%
Number of total compliments	Data previously not included in this report. Resolved for inclusion at ARIC meeting held 9 March 2022						100	94	↓
% resolved at fpoc	100%	100%	100%	100%	100%	99%	100%	100%	-

Commentary: Comparing F20/21 to F21/22 there was a 20% decrease in overall number of community complaints received. This is due to the reduced mobility of residents during the COVID lockdown that was in place on the Central Coast during Q1.

However, during the second half of F21/22 the Central Coast faced two significant weather events resulting in a 27% increase in community complaints and a 6% decrease in compliments in Q4.

There were no requests for a community complaint review this quarter resulting in 100% of complaints being resolved at first point of contact.

Governance Report Card - Central Coast Council

**Light house principle:** Risk management

Measure: Number of GIPA applications and % of reviews  
Reporting cycle: Quarterly  
Current as at: 30-Jun-22 Data provided by: GIPA team

	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Trend
GIPA applications	31	28	28	36	27	34	34	40	↑
Number of reviews	2	2	6	1	4	2	0	0	↓
Informal information requests	450	247	305	341	307	319	339	420	↑
Average days to complete	40	45	50	40	50	45	60	55	↑

Commentary: Q4 continued an upward trend in the receipt of both formal and informal GIPA applications, and the average time for completion.

It is noteworthy that, despite this increase, and the ongoing resourcing constraints within the team, applications for internal review remain low, reflecting the quality of the service being provided to the community.

Governance Report Card - Central Coast Council

Measure: Risk profile against Council's Enterprise Risk Management Framework  
 Reporting cycle: Quarterly  
 Current as at: 15-Aug-22 Data provided by: Enterprise Risk Manager

Total number of operational risks	
Total number of Extreme risks	0
Total number of High risks	13
Total number of Medium risks	92
Total number of Low risks	102

Risk by Type	
Asset	29
Business	35
Fraud and Corruption	27
Governance	24
HR	4
IM	1
Legal	11
Operational	57
Resources	7
Strategic	14

Commentary: This data is current as of 15 August 2022; however, Council's Enterprise Risk Manager confirms minimal activity between the end of Q4 and the reporting date. The category of WHS under Risk by Type has been removed as it is now being captured under Operational.

The next round of risk reviews will commence in September with the Unit Managers. These are being followed up by meetings with the Directors to allow a view and discussion of the Department risks profile.

Governance Report Card - Central Coast Council

Central Coast Council Risk Management Heat Map						
CONSEQUENCE						
		Catastrophic	Major	Moderate	Minor	Insignificant
LIKELIHOOD	Almost Certain	0	0	1	1	0
	Likely	0	0	2	6	1
	Possible	0	2	21	29	8
	Unlikely	7	12	21	52	8
	Rare	4	2	14	10	6

Governance Report Card - Central Coast Council

**Light house principle:**

**Disclosure**

Measure: % of annual disclosures completed within statutory timeframes  
Reporting cycle: Annual  
Current as at: 30-Jun-22 Data provided by: Senior Governance Officer

	17/18	18/19	19/20	20/21	21/22
% completed by 30 Sep (staff)	97%	96%	100%	100%	TBA
% completed by 30 Sep (Clrs)	100%	100%	100%	53%	N/A
% completed by 30 Sep (Admin)	NA	NA	NA	NA	TBA
% completed by 30 Sep (ARIC)	NA	NA	100%	100%	TBA

Commentary: Returns for the period of 2020/21 were tabled at the Ordinary Council Meeting held on 26 October 2021 as previously advised at the ARIC Meeting held on 7 December 2021.

Two new Designated Persons have joined Council (Director of Environment and Planning and Director of Community and Recreation Services) and their Returns were reported to the Ordinary Council Meeting on 23 August 2022.

The current Disclosure of Interest Returns for all Designated Persons are due by 30 September 2022 and a plan is in place to ensure Council is compliant with this requirement.□



Governance Report Card - Central Coast Council

**Light house principle:** Corporate reporting

Measure: Financial statements completed within timeframes  
 Reporting cycle: Annual  
 Current as at: 30-Jun-22 Data provided by: Group Financial Controller, Finance

	16/17	17/18	18/19	19/20	20/21	21/22
Date resolved	26/03/2018	10/12/2018	9/03/2020	27/04/2021	28/02/2022	TBA

Commentary: The legislated deadline for the finalisation of the Financial Statements is 31 October each year. However, the Office of Local Government grants extensions where there are valid reasons why that timeframe cannot be met.

Financial year ended 30 June 2022

We have been advised by the Audit Office that a possible extension will be sought to ensure all necessary work to address the 2021 audit qualification is complete. Notification of any extension will be tabled at the appropriate time.

Governance Report Card - Central Coast Council

Measure: Management Actions identified as part of audits completed by risk rating  
Reporting cycle: Quarterly  
Current as at: 30-Jun-22 Data provided by: Unit Manager Governance, Risk and Legal

	Extreme	High	Medium	Low	Total	Date	
<b>2021/22</b>							
Asset Management	0	2	4	0	6	Mar-22	Internal Audit
<b>2020/2021</b>							
Water Supply Management Audit	0	0	1	0	1	Dec-20	NSW Audit Office
Purchase Cards	0	0	2	0	2	Nov-20	Internal Audit
Payroll	0	0	1	0	1	Nov-20	Internal Audit
Complaints Management Audit	0	2	1	0	3	Mar-21	Internal Audit
Leadership Facilities Allowances and Expenses	0	0	2	0	2	Aug-20	Internal Audit
IT General Controls	0	1	0	0	1	Mar-21	Internal Audit
<b>2019/2020</b>							
Contract Management	0	1	0	0	1	Jun-20	Internal Audit
Councillor Facilities, Allowances and Expenses Policy	0	0	1	0	1	Apr-20	Internal Audit
Local Infrastructure Contributions	0	1	0	0	1	Mar-20	Internal Audit

Commentary: Following a review by Centium, the outstanding actions list has been reduced by eliminating actions that were (a) not agreed by Management; (b) not arising from audit activity; and/or (c) already completed as previously reported to ARIC on 8 June 2022.

Governance Report Card - Central Coast Council

**Light house principle:**

**Ethics**

Measure: No instances of failure to meet legislative deadlines  
Reporting cycle: Quarterly  
Current as at: 30-Jun-22 Data provided by: Senior Governance Officer

	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Trend
# of missed deadlines	2	3	0	1	0	1	0	5	↑

Commentary: On 2 July 2020, a Legislative Compliance Policy was adopted by Council. From 1 July 2020, a Legislative Compliance Register was established and implemented.

There was a total of 31 items due in Q4 2021/22 and 5 instances of failure to meeting legislative reporting deadlines, including:

- Groundwater Licences - the licences cannot be paid until the licences are issued. As of 30 June 2022, the invoices had not been received by Council.
- Environmental Indicators Survey - the ABS sends an online link when the data is ready to be collected. As of 30 June 2022, Council had not received this link from the ABS.
- Pressure Vessel Inspections - under clause 224 of the Work Health and Safety Regulation 2017, the person with management or control of pressure equipment must ensure that the equipment is inspected on a regular basis by a competent person. Council is currently checking asset records as a number of previously identified pressure vessels are no longer owned by Council and as such, it is unable to confirm whether they have or haven't been inspected as per the regulation.
- Agency Information Guide - under section 21 of the GIPA Act, Council is required to review and adopted a new agency information guide at intervals of not more than 12 months. This has not been done since 2019 due to staffing resources; however, a review is currently underway and it is hoped that a new guide will completed before the end of the next quarter.
- New Council Round 1 Reporting - Council has a biannual reporting obligation to the OLG concerning the Implementation Fund and Stronger Communities Fund. Staff have been unable to confirm whether this deadline has been met.

It also appears there were 4 items completed or reported late.

There are ongoing issues with ensuring each area of Council is recording the completion of the legislative requirement in the register. Staff continue to follow up with responsible staff about the completion of items/accuracy of reporting dates and update the register as required.

Governance Report Card - Central Coast Council

**Light house principle:**

**Structure**

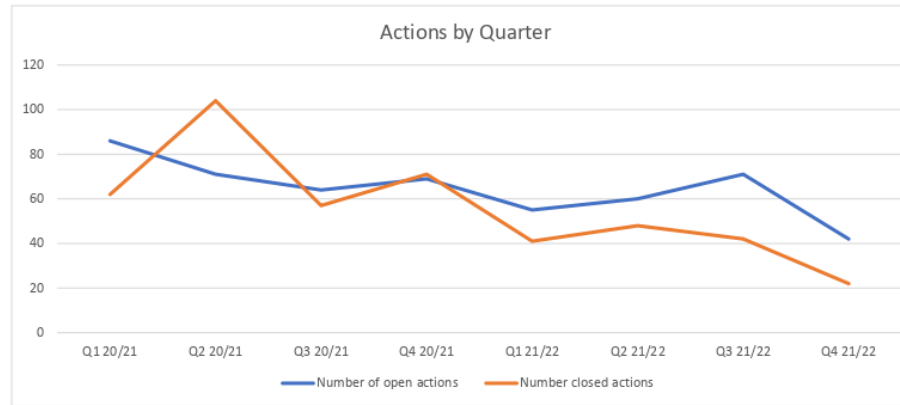
Measure: # of Council actions completed  
Reporting cycle: Quarterly  
Current as at: 30-Jun-22 Data provided by: Meeting Support Officers

	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Trend
Number of open actions (at end of quarter)	86	71	64	69	55	60	71	42	↓
Number closed actions (during quarter)	62	104	57	71	41	48	42	22	↓
Open and overdue (at end of quarter)	14	14	5	3	3	13	27	15	↓

Commentary: Open and overdue actions are as at the end of each quarter. Closed actions are those completed during the quarter.

Updates on outstanding Council actions are provided by the Unit Manager Governance, Risk and Legal to the Executive Leadership Team on a monthly basis.

Governance Report Card - Central Coast Council



Governance Report Card - Central Coast Council

Measure: % of items considered in Confidential Session of Council  
 Reporting cycle: Quarterly  
 Current as at: 31-Mar-21 Data provided by: Meeting Support Officers

	Q1 20/21	Q2 20/21	Q3 20/21	Q4 20/21	Q1 21/22	Q2 21/22	Q3 21/22	Q4 21/22	Trend
Total number of items	90	150	100	106	120*	56	45	51	↑
% in closed session	2%	10%	6%	1%	<1%	0%	0%	0%	-

\* As noted at the end of Q2 2021-22, it is expected there was an error in the data prior to Q2 2021-22.  
 The data collection method has since been modified and verified.

Commentary: In Q4 2021/22 there were no items considered in Confidential Session of Council.  
 There continues to be a focus on providing as much as practicable in open sessions of Council by using Confidential attachments.

Governance Report Card - Central Coast Council

**Light house principle:**

**Management oversight**

Measure: % of actions delivered against Community Strategic Plan

Reporting cycle: Annual

Current as at: 30-Jun-22 Data provided by: Section Manager Corporate Planning and Reporting

	18/19	19/20	20/21	21/22
Actions due to be completed	157	147	71	10
Number of actions completed	121	109	24	47

Commentary:

Please note the above 2021-22 figures are still draft and may change slightly. The final results will be included in the Annual Report which will be published by 30 November 2022.

There was a total of 67 actions for 2021-22. The above does not include the 8 that were KPIs for the financial year and were not achieved and the two that have been closed and incorporated into the delivery of other projects.



**Item No:** 6.2  
**Title:** Governance Workplan  
**Department:** Corporate Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/00030 - D15321685  
Author: Alysha Croussos, Senior Governance Officer, Governance  
Manager: Edward Hock, Unit Manager Governance, Risk and Legal  
Executive: Krystie Bryant, Director Corporate Services (Acting)

### **Recommendation**

- 1 *That the Committee note the ELT-endorsed Governance Workplan.*
- 2 *That the Committee recommend that this report and the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter.*

*The information provided in this report is current as at 2/09/2022.*

### **Summary**

The implementation of a strategic governance framework forms part of the 'One Way' pillar of Council's Organisational Direction. The Governance team has prepared a workplan of action items and projects that have been identified to help achieve good governance for Council.

This Plan was endorsed by ELT and work has begun on many of the projects.

### **Attachments**

- 1 Governance Workplan 2022-24 D15321690



Privacy Management Plan	Review, update and promote Council's Privacy Management Plan		Underway	Jun-22
Gifts and Benefits Register	Review/re-examine the workflow to ensure all fields are mandatory	Recent audit activity identified that several entries in the register were incomplete or lacked information required to be disclosed under Council's Gifts and Benefits Policy and Procedure	Jul-22	Jul-22
Gifts and Benefits Register	Review Council's Gifts and Benefits Policy and Procedure to ensure consistency and compliance, particularly concerning obligations (i.e. obligation to make gift register available on the website)		Jul-22	Jul-22
Internal Audit	Close out Audit-Like Recommendations Tracker update		Jul-22	Jul-22
Internal Audit	Develop and agree IA workplan for adoption by ARIC	Ensure adequate risk rating and engagement with internal stakeholders to provide greatest benefit with least disruption	Jun-22	Sep-22
Governance Audit	Review the previous internal governance audit undertaken in 2020, assessing any outstanding action items and identifying areas of potential risk and/or improvement	The previous action plan states that the next date for review is 2023, however, in the wake of the financial crisis, public inquiry and recently identified areas of organisational improvement, it is recommended that this check is re-examined now as it will inform potential areas for improvement that can be implemented as part of the governance framework.	Underway	Jul-22
Compliance	Review and update compliance register/s	Ensure a nongoing review process is adopted to ensure proactive coverage of changes to obligations, and assign ownership	Jul-22	Dec-22
Conflicts of Interest	Review the process of reporting conflicts of interest within Council, including review and/or redesign of the form to report a potential conflict of interest and confirm workflows are correct	It has been identified that the form is incomplete and several of the links are broken (i.e. fact sheet links to Wyong intranet)	Underway	Sep-22
Conflicts of Interest	Development strategies to promote this form/process within Council (i.e. 'Conflict Awareness Week', fact sheets, clear information on CHIP and promotion on screensavers, posters, etc.)	Council needs to develop and foster a culture of encouraging staff to identify and declare potential conflicts of interest; this doesn't appear to be the case as evidenced by a lack of entries in the Conflict of Interest register. Further, if the form is completed, it only goes to the employee and not their direct supervisor to make them aware of the conflict.	Jul-22	Sep-22
Conflicts of Interest	Review and/or update Council's Statement of Business Ethics (overdue for review) to align with Council's values and ensure consistency	This has been included as part of the Conflicts of Interest Project as the Statement speaks to Council's values and how they apply to both internal staff and external stakeholders	Jul-22	Sep-22
Policy Register	Review/amend Council's Policy Making Policy and associated Procedure	These are overdue for review and not easily accessible (as they are in an outdated format)	Jul-22	Dec-22
Policy Register	Identify obsolete or outdated policies and consult with review units to review, revoke or amend as appropriate	Many of the policies in the register are outdated, overdue for review or require consolidation as they are legacy policies from Wyong Shire and Gosford City Councils	Jul-22	Dec-22
Policy Register	Adjust and create workflows within the Policy Register to: - Align with new organisational structure and staff - Streamline workflows and reminders to ensure policies are actioned (current workflows only remind the unit managers that a policy is due within 3 and 6 months and does not follow up beyond that)	Outdated and not in standard Council format.	Jul-22	Dec-22
Policy Register	Revisit or review obligation (as currently identified in internal work instructions) to develop and distribute an annual report to the CEO on any outstanding policies due for review, consolidation or revocation		Jul-22	Dec-22
Councillor Induction and Development	Review and/or update the following Councillor related documents: - Councillor Induction and Professional Development Policy - Councillor Procedure in Representing the Community Interest in Planning Matters Policy - Councillor Engagement Plan - Policies - Councillor and Staff Interaction Policy - Councillor Expenses and Facilities Policy	Review in consideration of recommendations in the public inquiry and will ensure that Council is prepared for the return of the elected body prior to the election	Jul-22	Dec-23
Governance Framework	Development of a standalone document that outlines Council's governance framework, incorporating a clear understanding about the responsibility and accountability of relevant staff members and the procedures and processes in place to support this	For ELT review and adoption	Jul-22	Dec-23
Councillor Election	Implementation of a Councillor Election Plan, including pre-election information sessions that adopt the recommendations of the public inquiry report		May-23	Mar-24
Councillor Induction and Development	Implementation of a Councillor Induction Plan, including comprehensive information and a focus on development and training in line with the recommendations of the public inquiry report		May-23	Mar-24



**Item No:** 6.3  
**Title:** Integrated Planning and Reporting Activities for 2022-23  
**Department:** Environment and Planning

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/01492 - D15317003  
Author: Sharon McLaren, Section Manager Corporate Planning and Reporting  
Manager: David Milliken, Unit Manager Strategic Planning  
Executive: Alice Howe, Director Environment and Planning

### Recommendation

- 1 *That the Committee note the report on Integrated Planning and Reporting Activities for 2022-23.*
- 2 *That the Committee recommend that this report and/or the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter*

*The information provided in this report is current as at 31/08/2022.*

### Summary

The Integrated Planning and Reporting (IP&R) activities planned for the next 12 months will be focussed on implementing the Delivery Program and Resourcing Strategy, continued reporting on a quarterly and annual basis, as well as progressing planning for the comprehensive review of the Community Strategic Plan. Details of these activities are provided in the following table.

IP&R Element	Details
<b>Community Strategic Plan (CSP)</b>	A comprehensive review of the CSP is triggered by a local government election, with a new or updated CSP required to be adopted by the newly elected body by the end of the financial year in which they were elected. For Central Coast Council this means a new or updated CSP adopted by 30 June 2025. In preparation for this, planning will be undertaken in 2022-23 to determine methodology and community engagement. The planning will incorporate the feedback received from the most recent Community Reference Group. Engagement with internal stakeholders will be the first activity to commence, with a need to gain an understanding from on an organisational perspective on how we can improve the CSP.

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IP&R Element	Details
<b>Delivery Program (DP)</b>	The DP 2022-2025 was developed and adopted in June 2022 and includes a three-year program of works, concluding by 30 June 2025. Implementation of the adopted activities is now underway. A review of the activities planned for years 2 and 3 (2023-24 and 2024-25) will be undertaken and form as part of the Operational Plan, with possible revisions made based on varying circumstances (budget, resourcing, other emerging priorities etc).
<b>Operational Plan (OP)</b>	As noted above, implementation of the current Operational Plan (2022-23) is underway with the Q1 Business Report to go to Council in November 2022. This will detail the progress of actions, projects and KPIs. The activities for 2023-24 were already prepared as part of the Delivery Program. A review of these activities will be undertaken as part of the preparation for the Operational Plan for 2023-24. A draft will be exhibited in April 2023, with adoption to occur in June 2023.
<b>Resourcing Strategy</b>	<p>The Resourcing Strategy was reviewed and adopted in June 2022, with the following to occur in 2022-23:</p> <ul style="list-style-type: none"> <li>• Long Term Financial Plan – as per legislative requirements this will be reviewed and updated in line with the development of the Operational Plan 2023-24. Council has recently adopted a Financial Strategy, which will be incorporated in the Long-Term Financial Plan at its next review.</li> <li>• Asset Management Strategy – minor revisions were made to the Asset Management Strategy as part of the final Resourcing Strategy that was adopted June 2022. An internal review of asset management practices was also undertaken, with recommended improvement actions to be implemented in 2022-23. This will be in preparation for the local government elections where a new strategy will need to be prepared, in line with the CSP, and adopted by 30 June 2025.</li> <li>• Workforce Management Strategy – a new 4-year strategy was adopted in June 2022, providing details of workforce challenges and the actions that will be undertaken to ensure continued service delivery to 30 June 2026. The actions in this strategy are now being implemented. Final progress of actions within the previous strategy will be reported in the Annual Report 2021-22.</li> </ul>
<b>Annual Report (AR)</b>	The Annual Report for 2021-22 is currently being prepared. It is required to be prepared and published on Council's website within five months of the end of the financial year i.e., 30 November 2022

### 6.3 Integrated Planning and Reporting Activities for 2022-23 (contd)

Month	Code	Activity
AR = Annual Report		LTFP = Long Term Financial Plan
CSP = Community Strategic Plan		QTRLY = Quarterly Progress Report
OP = Operational Plan		
<b>SEPTEMBER 2022</b>	AR	Information collecting and drafting
<b>OCTOBER 2022</b>	CSP	Finalise scope and project plan
<b>NOVEMBER 2022</b>	AR	Publication on Council's website
	OP	Prepare for development (template creation, review of activities etc.)
	LTFP	Prepare for development (template creation etc.)
	QTRLY	Q1 Progress Report to Council
<b>DECEMBER 2022</b>		
<b>JANUARY 2023</b>		
<b>FEBRUARY 2023</b>	QTRLY	Q2 Progress Report to Council
	CSP	Commence internal engagement
<b>MARCH 2023</b>	OP	Document preparation and adoption to exhibit
	LTFP	Document preparation and adoption to exhibit
<b>APRIL 2023</b>	OP	Exhibition
	LTFP	Exhibition
<b>MAY 2023</b>	OP	Amendments based on exhibition
	LTFP	Amendments based on exhibition
	CSP	Prepare for community engagement
	QTRLY	Q3 Progress Report to Council
<b>JUNE 2023</b>	OP	Adoption

#### Attachments

*Nil.*



**Item No:** 8.2  
**Title:** Service Reviews  
**Department:** Environment and Planning and Community and Recreation Services

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14 September 2022 Audit, Risk and Improvement Committee Meeting

Reference: F2021/00030 - D15304611  
Author: Sharon McLaren, Section Manager Corporate Planning and Reporting  
Manager: David Milliken, Unit Manager Strategic Planning  
Sue Ledingham, Unit Manager Communications, Marketing and Customer Engagement  
Executive: Alice Howe, Director Environment and Planning  
Melanie Smith, Director Community and Recreation Services

### **Recommendation**

- 1 *That the Committee note the report on Service Reviews*
- 2 *That the Committee recommend that this report and/or the supporting papers to this report be made publicly available, pursuant to Clause 78 of the Audit, Risk and Improvement Committee Charter*

*The information provided in this report is current as at 31/08/2022.*

### **Summary**

As part of the new Integrated Planning and Reporting Guidelines, councils are now required to include service reviews as a deliverable within their Delivery Programs and Operational Plans. This has been included in Council's Delivery Program and Operational Plan 2022-23, with the focus on determining a methodology in how Council will undertake the service review.

It should also be recognised that initial work on service delivery was undertaken through Council's Special Variation (SV) application to the Independent Pricing and Regulatory Tribunal (IPART) in 2021-22, which included market research with the community to understand service levels.

This report provides details of the actions taken to date on service reviews and the focus for the 2022-23.

### **Background**

In May 2022 the Independent Pricing and Regulatory Tribunal (IPART) approved Council's Special Variation (SV) application to maintain rates at their current levels for an additional

## 8.2 Service Reviews (contd)

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seven years, equalling ten years in total, to 2031. While one of the key purposes was to meet contractual obligations with the two commercial banks to repay the outstanding portion of the \$150 million in Emergency Loans, the other two were to:

- Maintain services to at least current services levels as supported by the community of the Central Coast; and
- Embed further productivity and efficiency improvements across the organisation in order to maintain and increase service levels.

Throughout the development of Council's SV application, a range of actions were undertaken to assess Council's services, identify cost containment strategies and to develop service responses that supports community expectations. These activities included:

- Development of a Service Level Catalogue, which identified current service levels;
- Development of a Productivity Improvement Plan and review of costs savings;
- Analysis of service delivery and program impacts, including the Workforce Management Strategy and Asset Management Strategy;
- Community consultation from December 2020 to February 2021 for the Securing Your Future program, which supported previous Customer Experience surveys undertaken in preceding years;
- Market research and community feedback on the proposed scenarios and expectations on service levels, as well as future investment in services and new assets;
- Significant productivity improvements through better management of staff time, technological improvements that have transitioned manual processes into digital ones, and better equipment to help staff do their jobs effectively and efficiently. Some of these productivity gains will continue to have an ongoing positive impact on improved service delivery and the community will see the benefits year on year; and
- Building performance improvements into Council's service delivery model and productivity / efficiency savings targets included within the budget and into the Long Term Financial Plan

### Service Levels and Impacts

Council undertook market research over November and December 2021 and asked respondents about service and asset investment to inform its SV application and future service level planning. This was conducted across a range of services through both quantitative and qualitative processes.

From a quantitative perspective, three surveys were undertaken:

- Stage 1: Telephone survey with N=744 residents. This initial phone survey provided a sense of how the broader community feels about Council services at a high level.
- Stage 2: Online recontact survey with 336 of the Stage 1 phone respondents. This recontact survey included a more detailed explanation of Council's financial

## 8.2 Service Reviews (contd)

difficulties and a list of 47 services that could be potentially reduced so respondents could then provide more informed/considered survey responses.

- Stage 3: a separate survey to allow those in the community that were not included in the Stage 1 sample to have their say as well. Market Research team, Micromex, developed a hybrid online-only survey which asked a mix (but not all) of the Stage 1 and 2 questions – and Council promoted this open online survey. 740 surveys were received.

**Overall Satisfaction with Services:** Based on the phone survey, the majority (77%) of residents are at least Somewhat Satisfied with the quality of services overall. However, there is a sizeable minority (22%) who are Not very/Not at all satisfied.

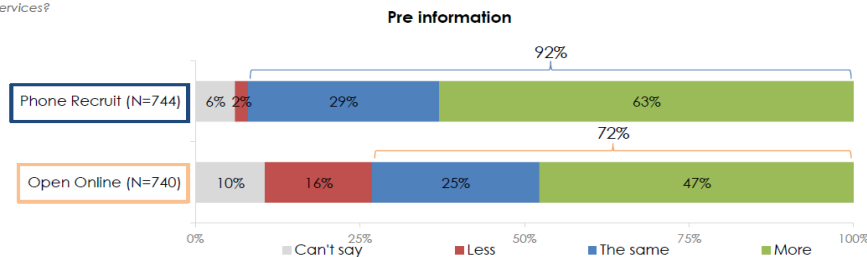
Based on the Online re-contact survey (when the same question was repeated), once respondents had time to consider Council’s financial situation and its range of services in detail, there was a softening of overall satisfaction with services – dissatisfaction did not increase, but there was a very noticeable shift from the Satisfied/Very satisfied codes to Somewhat satisfied.

**Overall Service Investment Perceptions:** When asked on the phone survey whether Council needs to invest Less/Same/More in services generally, 92% of residents selected Same or More – only 2% selected Less (with 6% Can’t say). On the online recontact survey (when the same question was repeated), the Less score jumped significantly to 18%. However, this means there were still 82% of residents who selected the Same or More

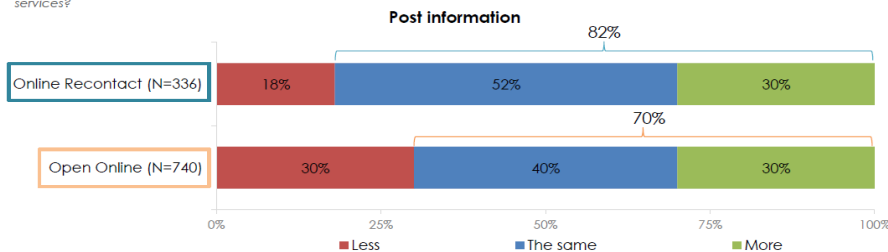
The following graph shows the comparison of “level of investment” results across all three quantitative surveys:

### Level of Investment for the Current Range of Services

Q3b. And overall, based on current service levels, do you think Council needs to invest more/the same/less than it currently does in providing its range of services?



Q8b. And overall, based on current service levels, do you think Council needs to invest more/the same/less than it currently does in providing its range of services?



Pre information, Open Online respondents were significantly more likely than the Stage 1/2 sample to state they think Council needs to invest less than it currently does into providing its range of services – although the majority (72%) wanted service levels to be the same or more.

Post information, the gap between the two samples closes – although even amongst the Open Online sample a clear majority (70%) still wanted service levels to be the same or more.



## **8.2 Service Reviews (contd)**

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Overall Asset Investment Perceptions: Similar to the above, on the online recontact survey, 27% of residents felt that Council could invest Less in new Assets – whilst 73% would like to see the Same or More investment.

### **Current Situation**

Work on Council's service delivery assessment will continue in 2022-23 with participation in the Performance Excellence Program (conducted by Local Government Professionals). The Performance Excellence Program is a benchmarking tool that allows councils to better understand their operating costs in specific service delivery areas and make like for like comparisons with other councils across the country. It is designed to provide Council with insights into its own data, whereby identifying possible opportunities for performance and productivity improvements. The data collection is currently underway and involves several iterations, with the final report to be delivered in December 2022.

Once the report is available, the next steps will be to review and determine opportunities for improvement. These may then be prioritised and be the first service delivery areas to be reviewed.

The methodology that Council will undertake to do a service review will also need to be determined as this will ensure consistency in any service changes that are determined. This action is contained in Council's Operational Plan 2022-23 (reference no. DP\_188).

### **Attachments**

*Nil.*