
Appendix one – Response from agency



13/06/2023

Ms Margaret Crawford PSM
Auditor-General, NSW
GPO Box 12
Sydney NSW 2001

Your Reference: D2307870/PA6708

Dear Ms Crawford

NSW Auditor-General's Report - Performance Audit - Financial Management and Governance in MidCoast Council

Thank you for the opportunity to comment on the recent Performance Audit Report - Financial Management and Governance in MidCoast Council dated 15 May 2023.

Council acknowledges the valuable work of the NSW Audit Office and appreciates the cooperative manner the Performance Audit Team conducted this engagement. The audit process, and communication between Council and the Performance Audit Team, was open and transparent and provided learning opportunities for both parties.

While Council has concerns around the selection process that led to it being the subject of this Performance Audit, it actively participated in the process to obtain full value from the results.

Council accepts the formal recommendations contained within the Performance Audit Report. The recommendations are consistent with the improvement path Council has been on since early 2021. The Audit Report highlights that financial governance at MidCoast Council (MCC) has progressively improved over the period of the Audit. This is positive reinforcement of the initiatives Council has in place to continually review and improve its systems and processes. Importantly, for each of the 7 recommendations, Council has commenced action to address the matters raised. A summary of these actions is **attached** (Attachment 1).

Council also notes the conclusions and key findings of the audit.

The conclusions, drawn from the key findings, are a factual reflection of the documented evidence that Council provided for assessment against the Audit criteria. The findings do not come as a surprise to Council, in fact many of the issues raised within the Report were disclosed to, and discussed with, the Performance Audit Team prior to the commencement of the Audit.

One of the key findings relates to long term financial planning. We acknowledge the comments in the Performance Report and point out that Council does have a Long-Term Financial Plan (LTFP), which was publicly exhibited in 2022 and adopted with all Integrated Planning and Reporting documents on 29 June 2022. This LTFP informed discussions with Council, which led to Council adopting a process to establish a Financial Sustainability Strategy at the Council Meeting held on 28 September 2022. Since the completion of the Audit, Council has continued detailed work on the current condition of all Council assets with Asset Management Plans expected to be reported to the 28 June 2023 Council Meeting.

These Asset Plans will form an important part of the Financial Sustainability Review, which is due to be presented to Council in December 2023. This entire body of work is referenced in the preparation of a revised LTFP, with scenarios and options to guide Council's financial sustainability decision making as required under the Integrated Planning and Reporting Guidelines.

There are other opportunities for improvement identified within the body of the Report, and through the various communications between Council and the Audit Team, over the course of the Audit. Council will consider these opportunities and look to implement them where they will result in better outcomes.

It is important to place on record Council's objection to its selection as the subject of this Performance Audit. There have been communications between Council and the Audit Office in respect to the selection criteria. Council remains dissatisfied with the level of detail provided to justify its selection as the sole auditee.

At the outset of the Performance Audit process, Council highlighted to the Audit Office the limited value that the Audit Report and recommendations would have when not considered in the context of financial management and governance performance across the Local Government sector.

Council requested that, like other Performance Audits, the Audit be run concurrently across two or three other Councils to enable some broader sector-wide conclusions to be drawn. Council believes that the Audit Office has missed an opportunity to provide significant value to the sector by focussing on a single merged Council, with known challenges during the period under audit. An audit group containing, for example, a small rural Council, a 2016 merged Council and a larger mature Council may have produced a Performance Audit Report with more relevance and value to all NSW Councils.

Based on the advice of the Audit Office, this was the first of a series of these Audits. Council looks forward to future Financial Management & Governance Performance Audits being conducted across a range of NSW Councils so that we can identify further improvements based on learnings from those Audit Reports.

The impact of the merger is also relevant to the issues raised in the Performance Audit, particularly in the first year of the Audit period. The NSW Government amalgamation that created MidCoast Council in May 2016 occurred following minimal community consultation and with limited notice. This significantly impacted the ability of the former Councils to work together to ensure critical business functions were transitioned in a planned manner.

The follow-up merger of the former MidCoast Water into MidCoast Council on 1 July 2017 added another level of complexity to the design and implementation of management systems and processes under which the new Council would operate.

Merger protection provisions in the areas of staffing and rating structures, combined with inadequate Government financial assistance to address all the integration costs associated with establishing the new Council, significantly inhibited our ability to be operating at the level of maturity expected by this Audit.

The period covered by the Audit commenced on 1 July 2019. The following projects were underway at that time:

- Implementation of a new Corporate Enterprise System covering Financial, Supply Chain, Human Resources / Payroll, Assets modules (MC1).
- Completion of 2018/2019 Financial Statements for audit which involved preparing 4 separate sets of statements, one for each of the former Councils, and consolidating them to achieve a MidCoast Council set. The Audit of these Financial Statements was impacted by the 2019/2020 bushfires,

which saw the Audit suspended. Three extensions from the Office of Local Government (OLG) were sort before lodgement in March 2022.

The replacement of a Corporate Enterprise System is a complex undertaking for any Council but is particularly complex for a merged Council. In subsequent years there were significant improvements made to financial management and governance arrangements as documented in the Performance Audit Report. These improvements continue.

Our purpose for raising this both with the Audit Team during the audit, and in our final submission, is to promote the need for the Audit Office to undertake an audit of the State Government merger process to ensure that lessons learnt are captured. This would be an important piece of work to inform and guide any future State Government mergers, and ensure appropriate planning and support is put in place to assist Councils and their communities through the merger process. In our Council's case, we have successfully worked through the risks of the merger and continued to improve our financial systems and governance to a level of maturity, which is evidenced through the period of the Performance Audit. We could however have done this more rapidly and successfully with financial and resource support, which despite many representations to relevant Minister was not forthcoming.

The Report makes commentary on the quality of financial reporting to Council and acknowledges that there is limited guidance available to the Local Government industry on aspects of quality reporting and data presentation. That said, it is important to note that Council meets all reporting standards set by the OLG and goes above the standard with Monthly Council Budget Reporting.

At present, any measurement of reporting quality by the Audit Office does not reference a standard that is known and understood by the industry. We suggest that if the aim is to measure the quality of financial reporting than the Audit Office should work with the OLG to define improvement standards so that Council and the Local Government industry can understand the benchmark that is being measured against and lift our standards to a better practice model.

The Report also refers to Council changing its definition of designated persons to only include the General Managers and Directors, which is in line with advice received from the OLG. This has since been amended to include all of Council's Executive Managers, Manager Finance and Manager Governance.

In conclusion, Council takes comfort that the Performance Audit acknowledges the improvement initiatives that MidCoast Council has implemented. These have significantly improved our financial management and governance performance across the period of the audit and beyond. We will continue to implement the recommendations which support the initiatives Council has in progress and look forward to continuing to work with the Audit Office on improving the performance of both MidCoast Council and the broader Local Government sector.

Yours Sincerely



Adrian Panuccio
GENERAL MANAGER

ATTACHMENT 1 – SUMMARY OF ACTIONS

Recommendations: NSW Auditor-General's Report - Performance Audit - Financial Management and Governance at MidCoast Council

By June 2024, MidCoast Council should:

- 1. ensure its Long-Term Financial Plan meets legislative and policy requirements by:**
 - a) ensuring the plan complies with guidance issued by the Office of Local Government**
 - b) updating the plan annually to reflect changes to the Council's delivery program and operational plan**
 - c) monitoring and addressing unforeseen changes in the external environment that would impact the Council's financial sustainability aims**

Council Action:

Council's Long Term Financial Plan (LTFP) will be updated by the end of June 2023 when Council considers the Delivery Program and Operational Plan. In addition, Council has commenced preparation of a Financial Sustainability Strategy to be presented to Council by the end of December 2023. Initiatives adopted as part of the Financial Sustainability Strategy will inform the review and development of a new LTFP.

- 2. obtain a complete understanding of the net cost of services by undertaking service reviews and ensure this informs decisions on budget and financial planning.**

Council Action:

Council is currently progressing a project to develop a corporate overhead cost methodology. This is due to be completed by the end of June 2023. In addition, a service optimisation project has commenced, and a service catalogue is underway. The service optimisation project will be reported to Council and Council will identify priority areas where service reviews will be undertaken during the 2023-24 year.

- 3. improve the quality of asset management information and ensure this informs decisions on budget and financial planning.**

Council Action:

Updated Asset Management Plans are due to be presented to Council in June 2023. In addition, Council is currently preparing a Roads Strategy with an anticipated completion date of December 2023.

4. ensure that the financial management components of the MC1 enterprise resource planning system are used to their full potential by:

- a) prioritising and delivering relevant recommendations made within implementation reviews and health checks of MC1**
- b) ensuring that all staff are adequately trained in MC1 use**
- c) identifying and removing processes performed outside MC1 which duplicate processes that should be performed by the system**
- d) monitoring delivery of expected benefits for MC1 under its Business Transformation Program**

Council Action:

Council has adopted and is currently implementing a detailed five-year Business Transformation program that includes remediation and improvement of the financial management component of MC1. The Financial Management system work has commenced and is scheduled for completion in early 2024.

5. address control and process gaps identified in audits and reviews, including:

- a) carrying out monthly closure processes**
- b) ensuring policies and procedures are in place and regularly updated to guide all financial management processes**

Council Action:

Monthly budget review reporting framework was implemented from 1 July 2021 in which monthly budget reports were presented to Council. Monthly reconciliations of key Balance Sheet accounts were introduced from 31 December 2021. Monthly Trial Balances were also generated from 31 December 2021 and these were reviewed to identify variations, discrepancies etc for which remediation was required.

A number of financial management policies have been adopted or updated during the 2022-23 financial year. These policies were on public exhibition from November 2022 and adopted by Council in March 2023. These policies included Budget Development Policy, Budget Management Policy, Investment Policy (Annual Review), Loan Borrowing Policy, Restricted Funds Policy and a number of rates/billing policies.

6. ensure financial competency for all those responsible for managing finance and budget by:

- a) completing and delivering professional development plans and training in financial management for Councillors**
- b) identifying and delivering financial management (or refresher) training for budget owners**
- c) monitoring finance training delivered and how it supports financial competencies established under role descriptions.**

Council Action:

Whilst Council notes that it has provided detailed Induction and offered professional development opportunities for the elected body (as a group) immediately post-election (December 2021) which included financial and budget information and training, Council intends to develop individual Professional Development Plans for each Councillor. This activity will commence in July 2023 and become the standard operation for the elected body going forward.

By June 2025, MidCoast Council should:

- 7. ensure all initiatives to address financial sustainability take into account the outcomes of improvements to understanding of the cost of services and asset management information.***

Council Action:

This will be considered in the development of a financial sustainability strategy.