



PERFORMANCE AUDIT

16 JUNE 2023

Financial management and governance in MidCoast Council

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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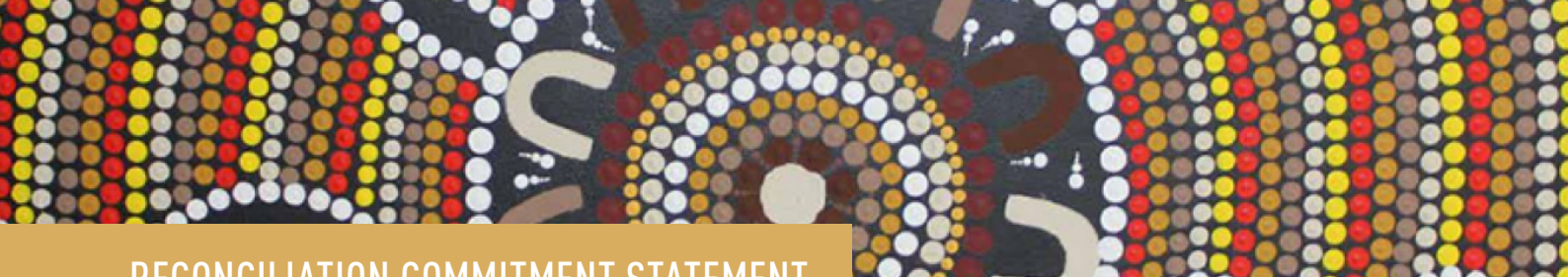
The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 421D of the *Local Government Act 1993*, I present a report titled '**Financial management and governance in MidCoast Council**'.

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

Margaret Crawford PSM
Auditor-General for New South Wales
16 June 2023

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RECONCILIATION COMMITMENT STATEMENT

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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Section one

Financial management and
governance in MidCoast
Council

Executive summary

Effective financial management is important in ensuring that councils achieve their long-term objectives, remain financially viable and deliver intended benefits to the community.

Sustainable financial management has been a priority for the local government sector since 2013 and continues to be one of the highest rated risks and priorities among councils in 2023.

According to data provided by the Department of Planning and Environment, during FY2020–21, NSW local councils:

- collected \$7.8 billion in rates and annual charges
- received \$5.8 billion in grants and contributions
- incurred \$4.8 billion of employee benefits and on costs
- held \$16.8 billion of cash and investments
- managed \$175.2 billion in infrastructure, property plant and equipment
- entered into \$3.7 billion of borrowings.

The *Local Government Act 1993* (LG Act) requires local councils to apply sound financial management principles including responsible and sustainable expenditure, investment, and effective financial and asset management. Under the LG Act and the Local Government Regulation 2021 (LG Regulation) councils are required to:

- establish and monitor their budget position
- clearly establish approaches to raise revenue, including from rates and other sources
- develop and implement integrated planning to ensure financial sustainability in line with community priorities and needs
- regularly report on their financial performance through financial statements.

The objective of the audit is to assess whether MidCoast Council (the Council) has effective financial management arrangements that support councillors and management to fulfil their financial stewardship responsibilities. It considers whether:

- the Council has an effective governance framework for financial management, through the existence of governance, risk management, internal controls and provision of adequate financial management training, including whether:
 - governance, risk management and internal controls are in place for financial management
 - adequate financial management and governance training and support has been provided to councillors, management and operational managers.
- the Council has quality and comprehensive internal financial management reporting, including whether:
 - councillors and management have identified and implemented essential internal financial management reporting elements
 - council's financial systems and data have integrity, and support identified financial management report production requirements
 - council reports are relevant, consistent, reliable, understandable, and tailored towards the requirements of key users (appendix two provides more information about the characteristics of effective financial management reporting).

- the financial management governance and reporting arrangements support councillors and management to fulfil their financial stewardship responsibilities, including whether councillors and management use internal financial management reporting to:
 - support budget decisions, resource allocation and cost setting (for example fees and charges)
 - monitor financial sustainability
 - assess operational efficiency, financial services and investments
 - make improvements where necessary.

This audit completed fieldwork during November 2022 to February 2023. The audit period of review was from 1 July 2019 to 30 June 2022.

Conclusion

MidCoast Council has not effectively carried out long-term financial planning to address its identified long-term financial sustainability challenges.

MidCoast Council has not met all legislative and policy requirements to effectively carry out long-term financial planning. It has not effectively considered and communicated how it will achieve financial sustainability goals and has not identified options to achieve such goals through its long-term financial plan.

Since 2020, and throughout 2021 and 2022, MidCoast Council has identified a need to focus on developing strategies for financial sustainability following the projected operating deficit for its general fund over the next ten years.

In September 2022, the Council took early steps to implement plans that aim to address the identified financial sustainability issues, but the Council has not yet established effective processes to analyse the true cost of services and address its unreliable asset condition data. Both are required to accurately inform its long-term resourcing strategy.

Between FY2019–20 and FY2020–21, MidCoast Council had gaps in its financial management and governance arrangements. The Council has taken some actions to address the gaps throughout FY2021–22.

Between FY2019–20 and FY2020–21, MidCoast Council did not ensure effective financial management governance and reporting arrangements. Over that time, the Council did not perform monthly reconciliation and reporting processes that would provide timely information and assurance to management and councillors over the Council's finances. It did not ensure that all financial management reporting met statutory deadlines for submission to councillors.

During this period, reviews, financial audits and internal audits identified risks to, and gaps in, finance processes, systems and controls. The consequences of these gaps were increased use of manual processes, and risks to the integrity of financial data and information used by management.

During FY2021–22, MidCoast Council implemented actions and processes that have increased transparency and led to improved financial governance. These include addressing and implementing some audit recommendations, and implementing monthly financial management reporting and month-end reconciliations.

MidCoast Council has commenced a \$21 million program to improve its customer experience, asset management, ICT and back office business processes. The Council advises that this program has a five-year implementation timeframe and it expects to achieve financial benefits over the ten years following commencement.

MidCoast Council experienced significant challenges in its implementation of a consolidated financial management system following amalgamation in 2016 and the merging of MidCoast Water functions in 2017. This has led to gaps in finance processes and data quality within the system.

In 2016, following amalgamation, MidCoast Council commenced work to procure and implement an enterprise resource planning system which included a consolidated financial management system. In 2017, Council further merged with MidCoast Water and arrangements were made to implement the system (MC1) after the functions of MidCoast water were incorporated. The Council continued to use four separate financial management systems until it commenced a progressive implementation of MC1 from 2019 to 2021. Across MC1's implementation, the Council experienced significant challenges relating to change management, user functionality and configuration.

This meant that the Council did not ensure that all of its staff were using MC1 effectively and efficiently, which led to gaps in finance processes and data quality, and delays in delivering integrated and automated financial processes across the amalgamated Council.

Since implementation, MidCoast Council has used MC1 to carry out finance processes required to collect rates, prepare budgets, monitor expenditure and income and prepare financial statements.

1. Key findings

MidCoast Council did not have formalised governance arrangements for key financial and budget decisions made by its executive team until February 2021

Between July 2019 and February 2021, MidCoast Council did not have documented policies or processes that determined when and how finance decisions should be made by its senior executive committee (MANEX), and how such decisions should be informed by the finance department. Over that time, the Council also did not adequately document how expenditure, budget and variation decisions were informed by the finance department. The Council advised that during this time, MANEX meetings, and decisions made in those meetings, were informed by verbal updates from its finance department but this was not recorded in documentation from the meetings.

During this time some budget decisions, such as changes to staffing establishment or commitments to services, were approved by MANEX before finance department approval was sought or documented.

Formalised input from the finance department around the impact of decisions on the budget provides greater confidence that management can afford their finance commitments and provides explanation of implications for other funding commitments.

In February 2021, MidCoast Council implemented steps to ensure input from the finance department into some finance decisions made by MANEX. Through this process the Council has facilitated finance department input to MANEX finance decisions and has documented this through standard templates and delegation.

The Council took further steps to set out governance of its budget development and decision making. In August 2022, MANEX implemented formal terms of reference to guide its processes and purpose, including for finance and budget decisions. In October 2022, following the commencement of this audit, the Council implemented a budget management policy and framework, including a procedure for written finance updates to be provided to management. This audit has not examined the implementation of these governance arrangements.

MidCoast Council has not met all legislative and policy requirements to effectively carry out long-term financial planning

Office of Local Government (OLG) guidelines reflect legislative provisions that require councils to undertake long-term financial planning. Under the guidelines, councils must address long-term financial planning by considering, over a ten-year planning timeframe:

- how they would manage future pressures on their finances
- how they meet community priorities for services and functions as detailed in the community strategic plan.

According to the guidelines, this long-term financial planning should be regularly updated and reflect movements in the Council's strategic planning and financial performance. It should also establish a range of scenarios and options to guide future decision making and service delivery.

MidCoast Council's Long-term Financial Plan does not effectively meet requirements to demonstrate options and scenarios, was not regularly updated across the period of review, does not formally communicate its financial sustainability goals and does not identify options to achieving such goals.

In August 2020, the Council resolved that MidCoast Council prioritise the update of its Long-Term Financial Plan and develop a set of long-term financial goals. From September 2021, MidCoast Council quarterly budget reports identified a need to focus on developing strategies for financial sustainability following the deteriorating position of its general fund. In May 2022, Council resolved that a plan of action be developed to address the ongoing General Fund deficit position identified in the Long-Term Financial Plan. In September 2022, the Council adopted a plan to produce a financial sustainability strategy. However, the proposal does not address how the suggested strategy would link to, or integrate with, Council's Long-Term Financial Plan.

The Council has yet to finalise its planned processes to analyse the net cost of services and obtain reliable underlying asset condition data that is required to accurately inform its Long-term Financial Plan and financial sustainability strategy.

MidCoast Council has improved its approach to delivering financial management reports

MidCoast Council has produced consistent, detailed financial reports and budget updates that meet legislative and policy requirements since August 2021. However, across FY2019–20 and FY2020–21, MidCoast Council did not ensure all financial management reports to councillors met statutory deadlines.

Four of nine required quarterly budget review reports during the two financial years were delivered after the statutory deadline. For the first of these reports, in November 2019, councillors were advised that the statutory timeframe would not be met due to challenges consolidating financial data across the systems of the former councils and the impact of bushfire events.

There was no explanation provided with subsequent reports as to why they were delivered after the statutory deadline, and no documentation or follow up from management and councillors.

Over the same period, management and councillors identified a need for improvements to financial reporting, including further detail and more frequent reporting. Since August 2021, Council staff have provided monthly financial reporting to management and councillors and have met all relevant reporting due dates. However, the full level of detail and functionality requested by councillors has not yet been implemented.

The Council's monthly finance reports are detailed and follow the format of existing quarterly budget reviews. This ensures regular and transparent provision of information to councillors.

MidCoast Council's implementation of its financial management system following its amalgamation in 2016 did not ensure that all staff used the system effectively and efficiently

In 2019, MidCoast Council commenced its implementation of MC1, an enterprise resource planning system which was introduced to integrate four financial management systems, finance staff and processes after its amalgamation in 2016, and the merging of MidCoast Water functions in 2017.

The decision to procure and implement MC1 was not supported by a detailed business case. The Council reports it has spent over \$5 million in direct costs for implementation. There is no indication whether this amount is in line with initial estimates.

MC1 supports finance, human resources and other important functions of the merged Council. External audit, internal reviews and internal audit have outlined that the Council did not ensure effective change management, user functionality and configuration. This has meant that some staff have not used the system effectively and efficiently. Further, some modules that could support consistency in approach or enhanced financial management information, such as financial information dashboards, enterprise asset management and project management have not been enabled or prioritised for implementation.

Implementation reviews have outlined that in some circumstances this has led to manual or duplicated work by MidCoast Council finance staff, data input errors and staff performing processes outside the system.

While the Council advised that it was aware of these gaps, it has not yet addressed the risks, or implemented recommended actions raised in implementation reviews. These would address application functionality and improve the provision of user testing and training.

MidCoast Council advises that system remediations, improvements and responses to MC1 review recommendations will form part of a five-year program to improve its customer experience, asset management, ICT and back office business processes. This program was approved by the Council in February 2023.

The Council reports that the program will cost \$21 million and has a five-year implementation timeframe. The Council advised that it forecasts \$36 million in benefits over the ten years following commencement and anticipates it will break-even from its investment in 2028.

MidCoast Council has improved some financial risk management processes but does not routinely test the effectiveness of its controls

MidCoast Council has a detailed, documented approach to risk management. The Council implemented a risk management roadmap in 2021 which has required all departments and divisions to identify and respond to strategic and operational risks.

Since FY2021–22, MidCoast Council has identified controls that respond to strategic and operational finance-related risks, but the Council does not routinely test the effectiveness of all controls. The Council does have a rolling program of internal audits which may periodically test these controls.

Prior to FY2021–22, financial audits, internal audits and internal reviews repeatedly identified that MidCoast Council had gaps in processes and controls to address financial risks. Gaps were identified in processes for budget and forecasting, accounts payable, payroll, and accounts receivable. Regular and repeat issues were raised regarding the absence of regular and timely reconciliations.

MidCoast Council has since implemented most audit and review recommendations but the Council has not yet addressed all findings, and many recommendations were not implemented to meet recommended timeframes, leading to repeat issues and escalation in risk.

2. Recommendations

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

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.

1. Introduction

1.1 Background

Financial management in local government

Effective financial management is important in ensuring that councils achieve their long-term objectives, remain financially viable and deliver intended benefits to the community.

Effective financial management and governance relies on:

- the availability of consistent, quality-assured and accurate reporting on financial matters that supports both strategic and day-to-day decision-making
- management and integration of financial data across systems
- qualified, trained and informed users across the financial reporting system who can access information relevant to their particular requirements and decision-making authority.

Effective and sustainable financial management has been a priority within the local government sector since 2013 and continues to be among the highest rated risks and priorities among councils in 2023.

In delivering key services to the community, local councils in New South Wales manage large amounts of public money.

According to data provided by the Department of Planning and Environment, during 2020–21, NSW local councils:

- collected \$7.8 billion in rates and annual charges
- received \$5.8 billion in grants and contributions
- incurred \$4.8 billion of employee benefits and on costs
- held \$16.8 billion of cash and investments
- managed \$175.2 billion in infrastructure, property plant and equipment
- entered into \$3.7 billion of borrowings.

Legislation and policy: Financial management principles

The *Local Government Act 1993* (LG Act) requires local councils to apply sound financial management principles including responsible and sustainable expenditure, investment, and effective financial and asset management (Exhibit 1).

Exhibit 1: Financial management principles for local councils

Section 8 of the *Local Government Act 1993* requires local councils to apply the following principles relating to sound financial management:

- council spending should be responsible and sustainable, aligning general revenue and expenses
- councils should invest in responsible and sustainable infrastructure for the benefit of the local community
- councils should have effective financial and asset management, including sound policies and processes for:
 - performance management and reporting
 - asset maintenance and enhancement
 - funding decisions
 - risk management practices
- councils should give regard to intergenerational equity, including the effects on future generations and the cost to the current generation.

Source: *Local Government Act 1993* (NSW).

The Local Government Regulation 2021 (LG Regulation) further outlines financial management and governance requirements. The LG Regulation requires that a Responsible Accounting Officer establish and maintain a system of budgetary control. It also requires that councils prepare quarterly budget review statements for councillors to monitor income and expenditure estimates, cash flows and to establish whether the financial position is satisfactory and, if not satisfactory, takes action to remediate the position.

Risks to effective financial management and governance

In New South Wales, public inquiries and investigations from the Independent Commission Against Corruption (ICAC) have identified risks to, and consequences from, poor financial management and governance. Such risks include:

- poor decision-making
- poor provision of budget information and decisions
- weaknesses in governance from the elected body and/or management.

The reports outline that such risks may stem from lack of clear leadership on financial matters, gaps in experience or competencies, and deficiencies in information put before senior decision-makers.

The potential consequences of gaps in governance and the financial control environment of a council include serious and significant outcomes such as corrupt conduct, breakdowns in council governance and can ultimately result in the suspension or dismissal of a Council.

Similarly, performance audit reports in other jurisdictions have identified that regular monitoring of financial performance information helps to manage risks and identify any weaknesses, strengths, and opportunities for making efficiency savings.

Integrated planning and reporting requirements

Under the LG Act, councils must develop and implement a range of detailed plans that guide financial management and service delivery. These requirements are established under the integrated planning and reporting (IP&R) framework. IP&R requirements aim to ensure that councils in New South Wales effectively plan, document and report on objectives for the future.

Under IP&R requirements, councils must regularly monitor and report on budgets, revenue policy and financial performance information to support decision-making and accountability. A council's IP&R process should be led by the community strategic plan and supported by a range of plans that set out short, medium and long-term strategies and actions (Exhibit 2). Among these are the delivery program which covers the term of each elected council's tenure and the operational plan which includes the annual budget and revenue policy changes.

Exhibit 2: Overview of the IP&R Framework

IP&R Planning element	Description	Planning horizon	Update requirements
Community strategic plan	The highest-level plan that identifies the community's main priorities, future aspirations, and the strategies the council intends to implement to achieve these goals. The plan is informed by community consultations and identifies the resources and service levels the community expects.	Minimum ten years	Once per council term
Resourcing strategy	Explains how the council intends to perform its functions, including implementing the strategies established in the community strategic plan. The resourcing strategy consists of three plans: long-term financial plan, workforce management plan and asset management plan.	Minimum ten years	Annually
Long-term financial plan (LTFP)	Used to inform decision making during the preparation and finalisation of the community strategic plan and delivery program. IP&R guidance suggests that this plan should promote financial sustainability by: - eliminating operating deficits - clearly establishing revenue paths for all rates - ensuring adequate funding of infrastructure maintenance and renewal - identifying plans to borrow and invest responsibly.	Minimum ten years	Annually
Asset management plan	Used to inform how the council will approach management of all assets and infrastructure under its control, including how it will prioritise maintenance, rehabilitation and replacement, and any specific actions required to improve the council's asset management capability and projected resource requirements and timeframes.	Minimum ten years	Annually
Delivery program	Identifies the principal activities to be undertaken by the council during its term of office to perform its functions using the resources identified in the resourcing strategy.	Term of Council	Annually, but monitor every six months
Operational plan	Serves as the council's budget papers. It establishes the work that will be done in support of the delivery program and is updated annually. It also establishes the Statement of Revenue Policy which sets out how the council will collect rates, levies, contributions, fees, as well as any proposed borrowings.	Annual	Annually
Annual report	The key accountability report to the community. The report focuses on the Council's implementation of the delivery program and operational plan, as well as other important information prescribed by the Local Government Regulation.	Annual	Annually

Source: Office of Local Government, Councillor Handbook December 2021.

In the context of financial management and governance, Section 403 of the LG Act requires each council to have a long-term resourcing strategy for the provision of the resources required to perform its functions and delivery of its plans. Within the resourcing strategy, councils must develop a Long-Term Financial Plan (LTFP).

The Long-Term Financial Plan

The LTFP is the key financial tool for a council's long-term resourcing decisions. The LTFP should be regularly updated to respond to developments in the external environment and the decisions of Council. Financial modelling within an LTFP can assist councils to better understand uncertainty and identify opportunities and threats. Consideration and approval of LTFPs also engages councillors at an early stage regarding financial matters for discussion in their production of their objectives and their service and asset delivery strategy.

Since 2013, IP&R guidelines have included general language that encouraged councils to consider sustainability, for example to consider whether they could afford what the community wants, and opportunities for future income and economic growth.

In 2021, IP&R guidelines increased the emphasis on the LTFP as a financial sustainability planning tool that links directly to other elements of IP&R in the planning phase. For example, while IP&R guidance released in 2013 and 2021 share some basic requirements for developing the LTFP and its content, the 2021 guidelines introduced new language that requires councils to consider the LTFP both during preparation and finalisation. The 2021 guidelines also introduced specific requirements and benchmarks relating to financial sustainability.

The 2021 IP&R guidance requires councils to give due regard to promoting financial sustainability in their preparations of the LTFP through:

- progressively eliminating operating deficits
- linking revenue with expenditure proposals
- ensuring that proposed increases in assets/services are within financial means
- ensuring adequate funding of infrastructure maintenance and renewal
- using borrowing where appropriate
- fairly distributing the rate burden.

Financial decision-making within councils

Requirements for financial management, decision-making, financial planning and risk management are established under legislative and policy provisions that assign accountability across councillors, the General Manager, the Responsible Accounting Officer (RAO) and council staff.

Each local council will establish its own set of delegated authority and governance arrangements that apply to their unique situation.

Elected Council

Councillors, as the governing body of a council make decisions in relation to:

- developing and resourcing of strategic plans, their funding and delivery under IP&R (as described above)
- overseeing investments and borrowings
- monitoring and oversight of finance/budget reports, including benchmarking, interrogation of changes in financial position and advocating for improvement
- considering the impact of decisions and strategies on council's finances, community and long-term direction
- ensuring that the council acts honestly, efficiently and appropriately.

General Manager

The General Manager is accountable for providing support and advice to the council in their oversight of the council's financial performance through:

- ensuring effective measures are taken to secure the effective, efficient and economical management of financial operations
- ensuring procedures are established to provide effective control over the council's assets, liabilities, revenue and expenditure
- ensuring that procedures are established to secure the accuracy of the accounting records, including a proper division of accounting responsibilities among the council's staff
- conducting the day-to-day business of the council in accordance with plans, programs and strategies endorsed and budgeted by council
- ensuring the functions of Responsible Accounting Officer are either undertaken or appropriately delegated
- guiding the governing body in the development of the Community Strategic Plan and related plans.
- implementing lawful decisions of the governing body, including the endorsed plans and strategies
- providing comprehensive council reports and financial impact information, including proposals for new programs/services, progress reports comparing results to the adopted budget
- providing clear and compliant financial reporting in partnership with the Responsible Accounting Officer
- answering questions and providing access to financial information.

Responsible Accounting Officer

The Responsible Accounting Officer (RAO) is a statutory position that has a range of tasks prescribed under the Act and Regulation. The RAO function can be retained by a General Manager function or delegated. This is often delegated to the head of finance. The RAO is accountable for:

- maintaining a system for budgetary control, and to do this in a manner that allows income and expenditure to be readily monitored each month
- ensuring that accounting records are kept up to date, recover monies, account for assets, implement appropriate budget systems and take measures to protect financial records from destruction or theft
- submitting regular financial reports to council that cover quarterly budget reviews, monthly investments and budget variations
- preparing and providing financial statements to councillors and auditors.

Council staff

Staff are employed by the General Manager to implement decisions of Council and carry out day-to-day business. The General Manager is the link between staff and the governing body and staff are answerable only to the General Manager.

Council staff provide advice and information to the General Manager that may inform business papers for consideration of Council. Staff are also expected to implement Council decisions as directed by the General Manager.

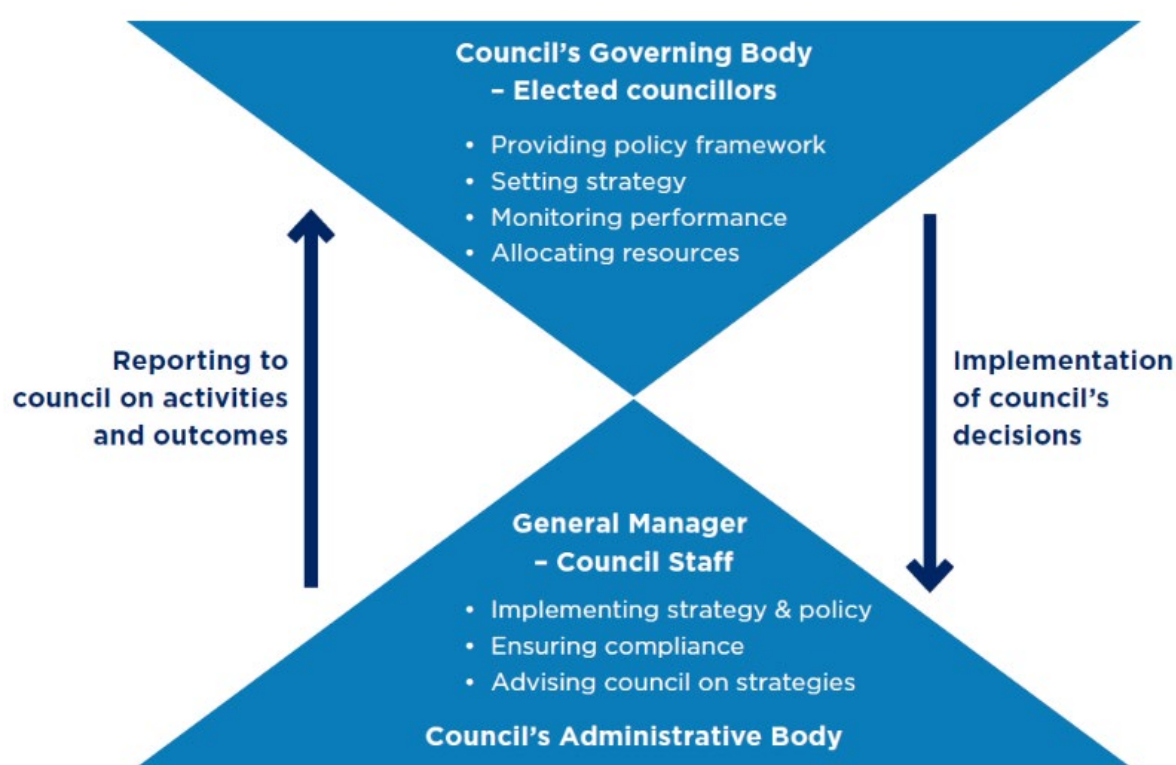
Examples of delegated and financial management activities carried out by council staff may include:

- collating and analysing financial and operational data to support financial planning for the council and their own operational area
- developing annual income and expenditure budgets and operational plans for divisional/branch responsibilities
- contributing to managing financial risks
- implementing operational, financial and information systems, processes and controls.

Relationships and interactions between councillors and council staff

While decisions of Council can only be made by the collective governing body, the professional relationship between the General Manager and the governing body is key to a well-performing council (Exhibit 3).

Exhibit 3: Interactions between councillors and council staff



Source: Council Structure - OLG Councillor Handbook 2021.

While the functions of a General Manager are regulated by legislation, ultimately they are accountable to the governing body who determine their process of appointment and monitor their performance against the financial and delivery performance indicators established in their contract.

1.2 About MidCoast Council

MidCoast Council characteristics

MidCoast Council is a large regional local government area (LGA) covering an area of around 10,000 square kilometres on the Mid-North Coast of New South Wales. In FY2021–22, the Council reported its population as 96,425 people.

According to OLG data, the Council had the 28th largest LGA population within New South Wales, and was the 19th largest council by geographical area. The Council is ranked second in New South Wales for road length.

MidCoast Council income, expenditure and staff

In FY2020–21, MidCoast Council ranked 11th in New South Wales for revenue and ninth for expenditure. The Council managed around \$346 million income and around \$266 million in expenses. Around \$57 million was received in grants and contributions.

Exhibit 4 outlines the Council's income and expenditure over the audit period.

Exhibit 4: MidCoast Council income and expenditure (consolidated fund) - FY2019–20 to FY2021–22

	2019–20 (\$'000)	2020–21 (\$'000)	2021–22 (\$'000)
Total income from continuing operations	295,032	315,185	346,474
Total expenses from continuing operations	258,520	278,108	265,729
Net operating result	36,512	37,077	80,745
Net operating result before grants and contributions provided for capital purposes	(11,068)	(20,931)	8,915

Source: MidCoast Council financial statements FY2019–20, FY2020–21, FY2021–22.

In FY2021–22, the Council reported it employed the equivalent of around 900 full-time staff, ranking it 14th among local councils.

The Council has 11 councillors elected in December 2021. Six of the 11 councillors had also served on the previous Council.

Like many councils, MidCoast Council has faced multiple externally imposed challenges over the audit period FY2019–21 to FY2021–22. These include:

- the impact of COVID-19 on delivery of Council services
- extension of the term of Council and delayed election until December 2021
- multiple natural disasters, including the 2019–20 bushfires and 2021 and 2022 floods
- continuing impact of amalgamation.

Amalgamation

MidCoast Council was proclaimed in 2016 following the amalgamation of the former Gloucester Shire Council, Greater Taree City Council and Great Lakes Council.

Initially, the proclamation required that the organisation remain a composite of the former councils with limitations on staff terminations for a period of three years. Under its amalgamation guidelines, the NSW Government introduced a rate freeze for newly merged councils, so MidCoast Council could not exceed its pre-merger level of rates unless permitted under the rate pegging system or as a result of a pre-merger special rate variation.

In 2017, the functions of the former MidCoast Water were integrated into the Council.

Significant achievements in the post-amalgamation environment included:

- developing and implementing the Council's first community strategic plan and associated delivery program and operational plan in 2017–18
- securing a \$50 million NSW Government grant joined with a special rate variation to form a \$100 million four-year road improvement program from 2018–19
- acquiring, refurbishing and centralising staff in a new facility in Taree opening in January 2021
- integrating the former councils' financial management systems into a single system, MC1
- obtaining an additional rate variation from IPART in 2022 resulting in a forecast increase in \$1.2 million in rate revenue for 2022–23 and expected impact to the General Fund over a ten-year period of approximately \$14 million.

1.3 About the audit

The objective of the audit is to assess whether the MidCoast Council has effective financial management arrangements that support councillors and management to fulfil their financial stewardship responsibilities.

This audit considers whether the:

- Council has an effective governance framework for financial management, through the existence of governance, risk management, internal controls and provision of adequate financial management training
- Council has quality and comprehensive internal financial management reporting
- financial management governance and reporting arrangements support councillors and management to fulfil their financial stewardship responsibilities.

MidCoast Council was selected to be audited following an initial shortlisting of councils that considered performance indicators reported by the Office of Local Government and in consideration of financial management issues raised through previous financial audits.

2. Financial management

2.1 Financial management governance

MidCoast Council did not have formalised governance arrangements for key financial and budget decisions made by its executive team until February 2021

Leadership and governance for financial management decisions within MidCoast Council is established via delegated authority and through collective decision-making under MANEX. MANEX comprises senior executives within the Council – the General Manager and directors. It does not include the finance manager who is the Council's Responsible Accounting Officer. Instead, the finance manager reports into and updates MANEX on financial matters.

Across the period covered in this audit, MANEX did not have formalised governance arrangements, such as documented Terms of Reference or a charter that clearly assigned responsibilities for financial decision-making such as budget approvals and when and how the finance department should provide input into such decisions.

The Council took steps to implement some processes that required finance department input in February 2021. The Council advised that between July 2019 and February 2021, MANEX meetings, and decisions made in those meetings, were informed by verbal updates from its finance department but this was not recorded in documentation from the meetings. This reduces transparency and impacts the ability to review when and how finance input was provided into key decisions of MANEX relating to financial commitments. Some budget decisions, such as changes to staffing establishment or commitments to services, were approved by MANEX before evidence demonstrated finance department approval was sought or documented.

Without formalised governance arrangements and formalising the input of the finance department into decision making, there is a risk that the Council does not have access to all the information required to fully understand the impact of decisions on its financial position.

The Council advised it has been working to respond to gaps in ensuring finance department input into MANEX decisions. The Council has formalised terms of reference for MANEX implemented in August 2022, and since October 2022, the Council implemented a requirement for the finance manager to provide a written finance update to MANEX.

MidCoast Council revised its governance forums in August 2022 which improved clarity and accountability for financial decision making

In August 2022, the Council revised and clarified its range of governance forums for its directors and managers. Terms of Reference for the governance forums demonstrate their different purposes and functions (Exhibit 5).

Exhibit 5: MidCoast Council governance forums

Governance forum	Membership and Chair	Roles and responsibilities	Frequency of meetings
MANEX	General Manager and directors	- Coordinate and control the operations and performance of MidCoast Council through a collaborative and whole of organisation approach. - Provide consistency in decisions ensuring alignment of strategy and operational practices.	Twice per month
Leadership Group	MANEX, executive managers and other managers (including finance manager and governance manager) that ensure strategic issues are given whole of organisation consideration	- Forum for strategic organisational priorities and planning. - Key role: Foster consistency in decision making, alignment and collaboration across the organisation and sponsor project teams as endorsed by MANEX.	Monthly
Extended MANEX	Leadership group, departmental managers	- Forum for informing operational priorities and delivery of strategic initiatives. - Key role: Foster alignment of operational activities and collaboration across the organisation, participate in project teams as endorsed by Leadership Group.	Quarterly

Source: MidCoast Council 2022.

Each governance forum is expected to contribute to achieving, among other things, effective and sustainable financial practices.

However, some gaps in governance and role clarity remain, for example:

- role descriptions for the Director Corporate Services and Manager Finance have not been updated since 2016 and no review dates have been set for updating either role
- there are opportunities to consolidate the approaches and governance of key areas like: asset management; project management; procurement; major projects and capital works.

MidCoast Council has implemented an Asset Management Working Group since February 2018 to address Council's IP&R requirements for asset management and identify opportunities for consolidation and consistency in approach. The Council advised it has also undertaken a project management internal review to address inconsistencies in project management.

MidCoast Council did not have policies and procedures in place to guide its approach to financial management until October 2022

Across the audit period of review MidCoast Council did not have policies and procedures for financial management that assigned clear roles and responsibilities for key financial management processes such as budget preparation and approval, financial reporting, accounts payable, accounts receivable, property and rating.

For example, in 2021, an internal audit found that several important financial management policies and procedures were not current, regularly updated and appropriately approved. Instead, MidCoast Council staff advised that the currency of, and how staff carry out, these processes relied on the knowledge and experience of key staff.

In November 2022, after this audit had commenced, the Council submitted a number of draft and updated finance policies and procedures to councillors for review and/or approval including policies relating to investment, loan borrowing, restricted funds, budget development, budget review and rates. The policies were adopted in March 2023. The implementation of these policies was not assessed by this audit.

However, MidCoast Council does not yet have a consolidated policy and procedure manual that establishes management's expectations for financial management and would ensure a standardised, consistent approach.

MidCoast Council's restructure of its finance department improved role clarity and governance but some tasks are subject to key person risk

MidCoast Council's finance department was restructured in August 2021. In support of this restructure, the Council reported that its finance department was not meeting operational requirements and roles, responsibilities, expectations and purpose were unclear. The restructure aimed to refocus the 'senior level finance work' to a small number of senior finance officers and remove the detailed tasks not suited to their roles and responsibilities.

However, the Council has not achieved all the intended outcomes of the finance restructure. Senior finance staff are still performing detailed transactional and reconciliation tasks, which limits the opportunity to focus on strategic financial management. This involvement in transactional tasks also reduces the opportunity for quality review and increases key person risk.

Since August 2021 and the department's restructure, the Council advises that finance department roles and responsibilities are clearer. Our review of role descriptions provided for finance and governance positions implemented since August 2021 found that the descriptions are clear and comprehensive.

Each business area within MidCoast Council is responsible for monitoring its budget performance and is supported by dedicated members of the finance department (finance business partners). Budget owners are required to acquit financial variances as well as report on progress of major projects and capital works each month.

MidCoast Council has identified, responded to and reported on risks to financial management

MidCoast Council has a detailed, documented approach to risk management. The Council implemented a risk management roadmap in 2021 which has required all departments and divisions to identify and respond to strategic and operational risks.

MidCoast Council has a strategic risk register, and division and department risk registers. All registers identify and respond to finance and governance risks. The Council's enterprise strategic risk register clearly establishes finance, fraud and theft and compliance as key risks, and department and division risk registers clearly identify risks, controls and proposed treatment action plans – including for finance and compliance as they relate to their services and functions.

However, as we outline below, there are some risks and gaps in the quality of the Council's approach to controls testing.

MidCoast Council's approach to fraud and corruption prevention is guided by an overarching Fraud and Corruption Control Framework and a Fraud and Corruption Control Policy. The Council also has a detailed fraud and corruption risk register that outlines controls that respond to fraud risks evident within credit card use, procurement, cash management, accounts payable, payroll, and fraudulent representation of council's financial position. Within the register, all controls are reported as effective, or somewhat effective with further treatment actions proposed. The Council advises that each division and department risk register also identifies fraud risks and controls.

MidCoast Council has established controls to identify and respond to finance-related risks, but does not routinely test the effectiveness of all internal controls

MidCoast Council's risk management reporting framework requires risk owners to make an attestation against the effectiveness of controls at regular intervals as part of annual risk profile reports. Within such risk assessment documentation, controls listed are specific and detailed and range from assertions about how procedures operate to incorporating agreed management actions resulting from internal audit.

In each of the risk profile reports, controls relating to the risk of poor financial management, fraudulent or corrupt behaviour, procurement and contract management are listed and rated according to effectiveness.

However, while division and department leaders must assert that controls are effective, the Council does not routinely test the effectiveness of these controls.

Instead, the Council relies on a rolling program of internal audits that may test key areas of risk determined by the Council's Audit Risk and Improvement Committee (ARIC) in consultation with management. This approach does not provide ongoing assurance that all controls are regularly tested and effective as stated by the risk owners.

The Council advises that finance topics are scheduled for internal audit as part of a four-year rolling program of internal audits, but internal audits on financial management are not prioritised for FY2022–23.

MidCoast Council's responses to internal audit and other review recommendations have not always met expected timeframes

MidCoast Council identifies non-compliances through its internal audit program, and the work of its governance department. However, over the period of review, implementation of agreed management actions from internal audits – including financial management focused audits – has been consistently late or rescheduled.

In some cases, rescheduled deadlines to respond to audit recommendations have not been met. For example, recommendations relating to a gap in policies and procedures from an internal 'health check' undertaken in 2021 became overdue and were not addressed until 2023. MidCoast Council advised that it has addressed management actions in line with higher organisational priorities and that its ability to respond was limited by resource availability.

In March 2022, an external review of MidCoast Council's implementation of MC1 identified gaps within the controls and processes that underpin how staff use the system. The Council provided the report findings to councillors, but did not provide them to the Council's internal or external auditors or the ARIC.

The Council advised in February 2023 that while the report findings informed the broader strategy for information technology within the Council, implementation of several recommendations had been put on hold until it progressed with its broader business transformation program that aims to remediate gaps in MC1. As a result, the Council has not yet addressed the risks, or implemented recommended actions raised in the implementation reviews that would address application functionality, and improve the provision of user testing and training. The Council aims to carry out these actions by December 2023.

Since 2021, the Council has improved reporting of its implementation of agreed management actions in response to internal audit recommendations and monitored the progress of these through both MANEX and ARIC.

However, some instances of non-compliance with controls and processes have not been identified and addressed in documented resolutions of MANEX or the ARIC. For example, as detailed below, MidCoast Council submitted several late quarterly budget reports in FY2019–20. We found no discussion of the implications of this non-compliance in MANEX, ARIC or Council papers in most cases.

MidCoast Council has managed conflicts of interest in line with its Code of Conduct

MidCoast Council has managed conflicts of interest in line with its Code of Conduct (The Code) that adopts the provisions of OLG's Model Code of Conduct established under the LG Act. Under the Code, 'designated persons' are required to provide annual pecuniary interest disclosures and all staff are required to disclose and manage significant non-pecuniary interests. The Council is responsible for 'identifying' designated persons that are required to provide the annual returns.

MidCoast Council staff that do not meet the definition of designated persons, including members of the finance department, are required to disclose pecuniary or significant non-pecuniary conflicts of interest as they arise. The Council does not require an annual declaration to be documented outside of these disclosures.

The Council maintains a register for conflict of interest declarations for staff, and our review of the returns indicated that most returned forms were completed, signed and acknowledged. We were not provided with a full listing of finance department team member declarations since 2019, but from a review of the returns on file, we noted no immediate conflicts of interest relating to finance or governance team members.

MidCoast Council maintains records of councillor declarations within Council meetings. The Council provided an excerpt of relevant disclosures from Council meetings and in relation to financial management matters only one councillor had relevant interests to declare, and that councillor made a relevant declaration and took appropriate actions to manage that interest. The register also demonstrated that councillors made disclosures for a range of non-finance related matters across the period of review, in line with the Council's Code.

MidCoast Council has changed its definition of designated persons which has reduced transparency for an important role responsible for financial management

Between FY2019–20 and FY2020–21 the Council included the Manager Finance and other key personnel as designated persons and disclosures from these staff were published on the Council's website.

Since FY2021–22, and following publication of an OLG Circular, the Council revised its interpretation of designated persons in line with this and IPC guidance, and now requires only the General Manager and Directors to submit annual pecuniary interest returns to be published on the Council's website.

This change in interpretation reduces the transparency over conflicts of interests and removes an important role – Manager Finance (who is the Responsible Accounting Officer) – from transparent declaration of pecuniary interests.

2.2 Training and support for financial management and governance

MidCoast Council has provided limited financial management training over the period subject to this audit

MidCoast Council has identified general financial competency requirements for its staff by matching its finance roles to a capability framework. However, MidCoast Council's training plans for the audit period demonstrate only limited planning to provide finance training.

In 2021, the Council funded 'finance for non-finance manager' training for its staff. This was the only training provided and formally documented to operational staff to address finance capabilities within the audit period.

That said, certain positions within MidCoast Council's finance department require qualifications and the Council reimburses professional development training where relevant. MidCoast Council advises it has supported three staff members with support to undertake tertiary qualifications since FY2020–21.

MidCoast Council has not delivered formal training to address identified gaps in how its staff have used MC1

Across multiple consultations with staff, we were advised that there were gaps in change management and training needs related to implementation of MC1. Inconsistency and lack of standardised approaches have led to reported gaps in how staff approach and understand how to use the system. These gaps include finance and other functions that feed into finance such as job costing and timesheet entry. It has also limited the ability of staff to use it to its full potential.

MidCoast Council's commissioned implementation review of MC1 discussed in detail below, and health checks of the Council's MC1 implementation from the technology provider also identify the need for further training to promote consistency and standardisation in approach.

Council staff advised that there has been limited formal training provided to its staff, and instead on the job learning has supported staff to use MC1.

The Council has not clearly documented or registered such training undertaken by staff and so cannot demonstrate how any such training is improving how users are working within MC1.

MidCoast Council has improved how it has provided training to councillors on financial management but has not yet met all legislative and policy requirements

Legislation and policy requirements establish that councils should provide induction and professional development training to mayors and councillors, and that they should report against this in their annual reports. Under the LG Act, councillors must make all reasonable efforts to acquire and maintain the skills necessary to perform in their role. Councils are also required to develop professional development plans for each councillor.

Between FY2019–20 and FY2021–22, MidCoast Council did not meet all requirements for provision of training to councillors on financial management. It did not develop professional development plans and did not report on its progress in providing training to councillors.

MidCoast Council's current councillor cohort commenced in February 2022 following local government elections in December 2021. The Council has provided induction, and some financial management and governance training for the 2021 Councillor cohort. As part of this initial induction training, an external provider was engaged to deliver introductory sessions on finance, audit and risk to councillors. MidCoast Council staff have also delivered training and workshops to councillors on financial management.

MidCoast Council reported on the training provided to councillors in its 2021–22 Annual Report, as required by the LG Regulation – including that it provided induction sessions from the corporate services department, Councillor Professional Development Workshop and ARIC training.

3. Financial management reporting

3.1 Internal financial management reporting

Financial reporting requirements for local councils are established under the LG Act, LG Regulation and the Local Government Code of Accounting Practice and Financial Reporting. The framework for financial reporting includes:

- annual financial statements
- quarterly budget review statements
- monthly reports on investments and borrowings.

Expectations for finance reports for management are not established under legislation, but several sources support that consistent, understandable, and tailored financial reports support management and other key users to effectively monitor Council's financial position and inform important expenditure decisions. Guidelines for the format, structure and content for quarterly budget reviews were issued by the Office of Local Government in 2010.

MidCoast Council's quarterly and monthly finance reports and updates are detailed and consistent

MidCoast Council provides regular financial reports and updates to councillors. In FY2019–20 and FY2020–21, the Council provided the following reports and advice to councillors and management:

- quarterly budget review statements
- monthly reports on investments
- advice on financial implications for all reports to Council.

Early quarterly budget review statement reports during the period covered by this review did not meet all content requirements from OLG's Guidance, and did not report on the Council's cash flow, including whether and how it was committing money under externally restricted funds.

Across the period of review, minor updates have been made to the template and content within the financial reports, which are designed to meet the OLG's Guidelines for quarterly budget review statements. From FY2020–21, quarterly budget review statement reports included reports on cash flow, with further improvements and detail provided in reports from FY2021–22.

Since August 2021, the Council has provided a monthly budget review update report that complements the quarterly budget review statements by reporting similar content in months in which a quarterly budget review statement is not required to be provided to councillors.

The Council added a 'Quarterly Contracts Report and Delegation of Expenditure over \$500,000' to the report in response to a resolution made in October 2019 and reports this by exception. This has increased transparency around larger procurements.

Our review found that MidCoast Council's quarterly budget review statement reports generally met OLG's requirements. The Council's finance reports and updates since July 2021 are detailed and comprehensive, and cover relevant information such as:

- income and expenditure, capital and cash flow statements of position for the Council's general fund, water fund and sewer fund
- budget variations
- investments
- assertions by Manager Finance (as Responsible Accounting Officer) on whether the Council's financial position would be satisfactory at the year end.

Some key messages in MidCoast Council's finance reports are not clearly explained or linked to other performance information

While MidCoast Council's finance reports are comprehensive, they do not always clearly or concisely communicate key issues for consideration and are not linked to other performance information. For example:

- a relatively low threshold of \$5,000 variances means that lists of budget adjustments are lengthy and larger items are not identified as a priority
- the report format doesn't follow other MidCoast Council reports and consists almost entirely of 'background', making it difficult to discern key messages, and information at a glance
- the reports do not refer to or integrate with monthly capital works project management updates that contain information on whether projects are tracking to time and budget and are not produced by MC1
- the reports are not integrated with other performance information, such as six-monthly Delivery Program (DP) and Operational Plan (OP) updates that detail Council's progress on its key strategic and operational priorities.

That said, reports to councillors do clearly identify whether the recommendations and decisions would have a budget or resourcing impact. This is made prominent in the summary and the detail.

MidCoast Council's financial management reports could be improved to provide management with clearer, summarised and concise reporting. For example, other audit jurisdictions and benchmarks suggest effective use of headings, summarised information and greater use of charts (Appendix two).

MidCoast Council did not meet all statutory timeframes to provide quarterly budget review statements in FY2019–20 and FY2020–21, but has met all timeframes in FY2021–22

Quarterly budget review statements are required under legislation to be provided to Council for adoption/endorsement no later than eight weeks after the end of the relevant quarter. This requirement applies for the first three quarters of each financial year, as the annual financial statements provide councillors with an update on the Council's financial position at the end of the financial year.

Across FY2019–20 and FY2020–21, MidCoast Council did not ensure timely submission of quarterly budget reviews (Exhibit 6). Four of six required quarterly budget review statements were provided outside the statutory period.

Exhibit 6: Provision of MidCoast Council quarterly budget review statements

Relevant quarter	Quarter end	Statutory timeframe for provision	Date statement was provided to Council	On time?
FY2019–20 Q1	30 September 2019	25 November 2019	18 December 2019	!
FY2019–20 Q2	31 December 2019	25 February 2020	25 March 2020	!
FY2019–20 Q3	31 March 2020	26 May 2020	24 June 2020	!
FY2020–21 Q1	30 September 2020	25 November 2020	18 November 2020	✓
FY2020–21 Q2	31 December 2020	25 Feb 2021	10 February 2021	✓
FY2020–21 Q3	31 March 2021	26 May 2021	2 June 2021 [^]	!
FY2021–22 Q1	30 September 2021	25 November 2021	27 October 2021	✓
FY2021–22 Q2	31 December 2021	25 February 2022	23 February 2022	✓
FY2021–22 Q3	31 March 2022	25 May 22	25 May 2022	✓

[^] No Council meeting was held in May 2021 and this report was provided to the next available Council meeting held in June 2021.

Source: MidCoast Council quarterly budget review statement reports 2020–2022.

In November 2019, the Council briefed councillors that the statutory timeframe would not be met due to difficulties in integrating financial data of its former Councils across the financial management system and the impact of bushfire events.

However, we found no comments from councillors, management or the Responsible Accounting Officer regarding the implications of this non-compliance, nor necessary actions to ensure future reports were delivered on time, within MANEX, ARIC or Council papers.

MidCoast Council met all required timeframes for provision of quarterly budget reviews in FY2021–22.

MidCoast councillors requested more detail in finance reports and updates but the Council has not yet implemented all requests

An August 2020 resolution of Council expressed councillors' request for greater detail in MidCoast Council finance reports and updates. Under the resolution, councillors requested monthly updates on the budget position, as well as financial dashboards, data and indicators.

MidCoast Council produced monthly budget reporting one year later, in August 2021. Since implementing monthly budget variation reports, the Council has delivered monthly reports on time.

However, MidCoast Council has not yet implemented the requested financial data, indicators and dashboard. The Council advises that this capability will be delivered as part of its business transformation program which commenced planning in March 2023. However, the Council's delivery schedule indicates that planned rollout of this functionality is not scheduled for implementation until 2025.

3.2 Integrity of MidCoast Council's financial systems and data

MidCoast Council's MC1 system has not been used effectively or consistently since implementation

Following its merger in 2016, MidCoast Council worked to bring together four separate financial systems and data in 2018–19 as it commenced its phased implementation of MC1. This process also involved consolidation of financial information and approaches to inputting cost information and consolidation of key financial positions.

MidCoast Council implemented MC1 in July 2019 with core financial management applications to be rolled out under a phased approach. The Council spent over \$5 million in direct costs for implementation. Exhibit 7 outlines the aims of MC1. Finance functions were part of the first phase to be implemented.

Exhibit 7: MidCoast One (MC1) objectives

Moving towards digital transformation and integration to deliver:

- improved responsiveness and timeliness of service
- efficiency and automation of processes
- convenience and ease of access through online services
- transparency and evidence-based decisions
- business process improvement.

Source: MidCoast Council Annual Report 2016–17.

Reviews and other internal reports have outlined difficulties and delays in MC1 implementation including:

- managing relationships between the Council, the technology provider and the implementation partners
- issues in project governance and change management for MC1, including that financial management approaches and processes had not been harmonised prior to the implementation of MC1
- time constraints and pressures to deliver the system ahead of the move to MidCoast Council's new premises.

The MC1 implementation reviews have also consistently identified opportunities to improve training provided to end-users, improve functionality and configuration, and achieve greater efficiencies in processes and staffing due to reduced manual processes.

While internal reviews and strategy documentation supported the Council's perceived MC1 implementation gaps, including for financial management and reporting, they also found the system was appropriate for MidCoast Council's needs, size and complexity.

Council staff advised that some reporting modules have been withheld from production that might help provide consistency and improved functionality. For example, available modules that would support financial information dashboards, enterprise asset management and project management have not yet been delivered.

MidCoast Council has improved how it uses MC1 to support production of finance report and updates

Reviews of MidCoast Council's Information Communications and Technology (ICT) strategy and MC1 implementation have repeatedly raised that MC1 has not been effectively used to its full potential for financial reporting. For example:

- a March 2021 review of MidCoast Council's ICT strategy outlined that the Council was still using a 'vast array' of legacy software applications, including finance applications, resulting in duplicate data and implementation of manual workarounds such as spreadsheets
- a March 2022 MC1 implementation review of MC1 identified issues with duplication of processes and data migration errors.

Until 2022, MidCoast Council's process for preparing financial reporting was reliant on the knowledge and processes of the finance manager, and manual production and reconciliation of key figures and accounts. The Council advised that since November 2022 the quarterly budget review has been produced using MC1, despite MC1 being in operation since 2019.

That said, MidCoast Council has improved the way it uses MC1 to monitor its financial position in other ways. For example, MidCoast Council has used MC1 to provide detailed finance information to directors and budget managers. The Council has responded to a MANEX request in June 2021 by providing directors and managers with access to detailed finance information, including budget reports for divisions and departments and the ability to break down budget information by cost centre.

Audit findings and external reviews have outlined gaps in financial controls and information across FY2019–20 and FY2020–21

Implementation reviews of MC1 and financial and internal audits have identified risks to and errors in MidCoast Council's financial data and information. These reports indicate that between 2019–20 and 2020–21 the integrity of the financial data and information was compromised by control deficiencies and gaps in reconciliation processes.

Findings from external audits include gaps in the way the Council transitioned its transactions and finance data from its former systems to MC1, a need for improvements to quality assurance processes and information underpinning draft financial statements, and a lack of monthly reconciliation processes until August 2022.

Control and process gaps across several important finance processes have also reported within internal audit and internal reviews across the audit period, including issues relating to:

- manual processes performed outside MC1 for budget and forecasting
- inaccurate use of job costings and works orders that feed into financial information
- errors in data entry and gaps in business processes for purchase orders
- lack of segregation of duties for payroll processes
- errors in some account balances, duplicate payments and duplicate journal entries
- lack of reconciliation procedures
- role clarity issues
- data migration issues, gaps in design and configuration of MC1.

MidCoast Council has responded to identified control gaps, but some important processes and controls require improvement

MidCoast Council has responded to some of the control and process gaps listed above. This has included:

- a restructure of its finance department
- implementing its risk management roadmap and framework
- responding to the outcomes of a financial health check
- implementing finance business partners to ensure accurate costing and data entry
- implementing monthly reconciliations and undertaking monthly budget variation reporting.

However, some important reconciliation processes are still being performed manually. For example, in both a budget reconciliation and period end reconciliation observed in November 2022, aspects of important matching and calculations were manually performed outside the finance system and guided by professional judgement and experience rather than by policies and procedures.

Further, while MidCoast Council staff indicated that some important processes and controls such as segregation of duties were being carried out, these processes were not documented or completed in a systematic way.

MidCoast Council has commenced a multi-year strategy which includes remediation of MC1 implementation gaps

MidCoast Council has commenced a multi-year program to improve its customer experience, asset management, ICT and back office business processes.

Among other things, the business transformation program aims to address priority fixes for MC1, and applies a framework for continuous improvement for both commenced and not yet commenced finance modules.

\$21 million funding for the program was endorsed in the councillors' consideration of budget in June 2022 and the program delivery partner tender was approved by Council in February 2023. The Council advises that the program has a five-year implementation timeframe and that it forecasts \$36 million in benefits over the ten years following commencement and anticipates it will break-even from its investment in 2028.

This audit has not examined the implementation of the business transformation program.

4. Using financial reporting and information

4.1 Using financial management reporting to make strategic and operational decisions

MidCoast Council's finance department had limited input into some budget decisions made by MANEX until February 2021

Gaps in MidCoast Council's budget policy framework and how MANEX considered finance department input indicate that some budget variations or funding decisions made by MANEX between July 2019 and March 2021, had not adequately considered financial reports or ensure finance department input.

For example, across a sample of briefing notes put to MANEX in 2019–20 and 2020–21 requesting budget variation or allocation, we found no instances where the finance department was consulted, and this was documented. Some of these briefing notes requesting budget were approved despite the lack of documented finance department input, even though for some the business owner was asked to speak to finance. This indicates that budget variations may have been approved prior to consultation with finance to confirm budget was available.

One prominent example of this process was evident in requests for changes to staffing establishment. Our review of a sample of MANEX briefing notes requesting policy or resourcing changes to staffing establishment between July 2019 and March 2021 indicated they did not clearly demonstrate consultation with or feedback from the finance department.

The Council has addressed these process gaps. Since March 2021, standard templates require finance department input for budget allocation or variation requests, and this includes requests for establishment changes, including for changes in staff grade or requests to restructure or appoint staff.

MidCoast Council's aims to address financial sustainability risks are not effectively reflected in its long-term financial plan

MidCoast Council has identified financial sustainability risks, and a need to develop a plan to address these risks, across a number of forums and regular reports since 2020.

The Council has identified financial sustainability – in terms of whether its general fund will be in surplus or deficit – as a strategic risk and reports against this risk in its enterprise risk register and division and department business risk registers and plans.

Quarterly budget reviews since September 2021 have also identified that the Council's financial sustainability – in terms of the General Fund's net operating position before grants and capital contributions – over the long-term was at risk, and that it should be addressed over multiple future budgets and financial periods.

MidCoast councillors resolved in May 2022 that the Council develop a plan to ensure financial sustainability and address the ongoing general fund deficit position within a four to six year timeframe.

In response to the resolution, the Council received a follow-up report in September 2022 proposing a Financial Sustainability Strategy to be included in the IP&R documents for 2023–24. While this response implies a plan to develop some strategies to reduce the operating deficit, it is not clear in this report how the proposed plan to develop a 'Financial Sustainability Plan' relates or links to the 2022 or future LTFPs.

Consequently, the Council's focus on financial sustainability has not been reflected in the Council's LTFPs over the audit period. MidCoast Council's 2022 LTFP did not include a clear objective or plan to address the ongoing deficit in the general fund nor other goals relating to financial sustainability. The narrative sections of the 2022 LTFP compared to the 2018 LTFP are only minimally changed, and do not reflect developments in the policy environment through the inclusion of financial sustainability goals.

The 2022 LTFP includes an objective to achieve a balanced budget over the long-term, but it also states (in discussing the base-case scenario) that the General Fund will continue to operate in deficit across the ten-year horizon.

MidCoast Council attributes the limited improvement of their LTFP to gaps in underlying asset data. MidCoast Council reported in 2022 that it had reviewed its current asset information in relation to the transport network and that further work was required to verify data within that asset class to a desired level of accuracy.

MidCoast Council has not regularly updated its long-term financial plan

MidCoast Council adopted its current LTFP at the Ordinary Council Meeting of 29 June 2022. The previous LTFP was adopted in June, 2018. Both LTFPs were adopted in line with the four-year cycle required by OLG.

However, MidCoast Council has not regularly updated and improved its LTFP over planning cycles to accommodate updates to LTFP guidelines from OLG or changes in expectations from the elected Council.

While MidCoast Council's 2018 and 2022 LTFPs state that they recognise the OLG requirement for annual update of information into the LTFP, the Council has not met this requirement each financial year. A 2020 resolution of Council established, among other things, that the Council should update its long-term financial plan and develop a set of long-term financial goals.

Across the period covered by this audit, the Council reported that its updates to the LTFP were delayed pending a comprehensive review of the LTFP that was due in 2021 but delayed until May 2022.

MidCoast Council has not used the LTFP effectively as a tool for financial planning and decision-making

OLG requires that the LTFP must be used to inform decision-making during the preparation and finalisation of the Community Strategic Plan and the development of the delivery program. OLG also requires the use of financial modelling for different scenarios (for example planned, optimistic and conservative) in order to provide the Council with the levels of financial tolerance to guide decisions about the delivery of future projects and services.

MidCoast Council has not applied a breadth of financial scenarios and modelling to its LTFPs. For example, only a base-case scenario was considered in the 2022 LTFP. MidCoast Council has stated that scenarios around planned, optimistic and conservative service levels could not be prepared as the underlying asset management information was not available.

This means that the full extent of best and worst case financial scenarios were not available to councillors and the community as they considered their integrated planning strategies.

Financial management reporting or information has not been effectively used to inform assessment of operational efficiency, financial services and investments

During the period covered by this audit, MidCoast Council monitored its budget and financials through:

- verbal updates from the Manager Finance to MANEX fortnightly meetings
- statutory and other regular reports to councillors on the Council's quarterly budget position, as well as borrowings and investments
- response to questions with notice and/or resolutions of Council
- updates to the Council's Audit, Risk and Improvement Committee (ARIC).

However, MidCoast Council has not effectively used financial information to fully understand the cost and outcomes of its projects and services.

For example, the Council has not adequately documented financial and project information for one of its most significant projects within the audit period, its implementation of MC1. Council staff report there was no business case nor justification of costs for the initial decision in 2017, with a business case only prepared in 2019. The Council reports it has spent over \$5 million in direct costs for implementation. There is no indication whether this amount is in line with initial estimates.

MC1 implementation and some other initiatives from MANEX have identified efficiencies, and establishment changes and restructure proposals have identified options for more efficient operations. However, the Council has not clearly reported on costs associated with benefits realisation for the MC1 implementation.

Further, the Council has yet to implement planned activities to realise efficiencies and productivity that are expected to come following the MC1 upgrade.

MidCoast Council does not yet understand the total costs of the services it provides

MidCoast Council staff we interviewed advised that the Council does not have an agreed approach to service and project costing. In January 2020, reviewing the levels and pricing impacts of services was listed as a priority project. The Council resolved in May 2022 to introduce service reviews.

The Council advised that it is working to implement a plan and framework for service reviews which will be mandatory from 2024. The project is reportedly due for completion by the end of June 2023.

Service reviews would help the Council demonstrate the efficiency and effectiveness of key services, and inform strategic and operational decisions around budget, operating models and levels of service.

MidCoast Council's finance reporting and budget preparation is not integrated with other strategic or corporate planning processes

The Council provides half-yearly updates to the Delivery Program and Operational Plan in line with IP&R Requirements. However, these updates are not integrated with other financial reporting, and the timing gaps between providing financial budget and statement updates (QBR and Financial Statements) on time risks providing an inaccurate progress update to Council in relation to financial performance objectives.

Integrated finance and performance reporting would provide greater insights to management and councillors regarding how effectively and efficiently assets, services and functions are being managed and delivered.

MidCoast Council has effectively responded to individual councillors' requests for financial information to aid decision-making

Some MidCoast councillors have raised queries about financial management related matters across the audit period. Around 70% of questions with notice raised at council meetings related to the Council's finances including budget, projects, and staffing costs. MidCoast Council staff have mostly addressed these questions in a comprehensive and timely manner.

Despite the issues in timely provision of reports over the audit period of review in FY2019–20 and FY2020–21 outlined above, quarterly budget reviews and monthly budget updates since July 2021 have provided detailed commentary on budget variations above \$5,000. Council meeting records indicate that all proposed variations were approved and/or noted by the councillors.

Councillor workshops and pre-meeting briefings also provide an opportunity for councillors to engage with financial management reporting, budget and other relevant financial planning items (such as LTFP, DP/OP). In line with guidance from OLG, the Council does not keep meeting records from these meetings and workshops. We are unable to confirm whether and how Council staff have responded to councillor questions, challenges or provided support.

Section two

Appendices

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. 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:

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.

Appendix two – Characteristics of effective financial management reporting

Effective financial management reports ensure decision-makers have access to clear finance and performance information and advice presented in a way that is accessible and enables interrogation.

Across both the public and private sectors, regulators and industry oversight bodies recognise that well-crafted, meaningful and efficiently presented reports are a fundamental element of corporate governance.

All state jurisdictions in Australia provide guidance and policy to local government on meeting procedures, governance and the content and format of financial statements. However, few provide guidance regarding the compilation and quality of business papers and agenda reports.

In New South Wales, OLG has established minimum requirements for regular financial management reporting, including quarterly budget review statements and monthly investment reports that provide parameters for consistency, timeliness and content of reports. Local councils are also required to adopt a Code of Meeting Practice that focuses on the governance of meetings and helps to ensure compliant and efficient decision-making. However, there is limited guidance available on aspects of quality reporting, accessibility and data presentation.

Characteristics and content for effective financial management reports have been outlined by other jurisdictions and audit offices that aim to promote sound corporate governance. A range of both industry and oversight bodies have formulated advice and policy describing the characteristics of good financial reports and business papers.

Our review of the available guidance established that effective financial and board/business papers:

- apply insightful commentary and do not expect figures to explain themselves
- contain and convey trustworthy data
- focus on areas for action and only highlight necessary data
- use tools such as charts and tables judiciously, focusing on simplicity of conveying information and minimising overcrowding with data through moving large tables to attachments
- are written in plain English and tailored to the intended audience
- apply a level of detail determined by the needs of the report user or decision-maker
- are comparable and consistent with other reports used by decision-makers, including standard formats, language, terminology, ratios and data sources to aid comparison
- have a standard framework for production, supported by policies/procedures, templates and a quality assurance mechanism
- are produced in a timely manner following the financial reporting period
- consider risk.

Appendix three – About the audit

Audit objective

This audit assessed whether MidCoast Council has effective financial management arrangements that support councillors and management to fulfil their financial stewardship responsibilities.

Audit criteria

We examined the audit objective by considering the following audit questions and criteria:

1. Financial management governance: Does MidCoast Council have an effective governance framework for financial management?
 - a) Governance, risk management and internal controls are in place for financial management.
 - b) Adequate financial management and governance training and support has been provided to councillors, management and operational managers.
2. Quality and comprehensive internal financial management reporting: Does MidCoast Council have effective internal financial management reporting arrangements?
 - a) Councillors and management have identified and implemented essential internal financial management reporting elements.
 - b) Council's financial systems and data have integrity, and support identified financial management report production requirements.
 - c) Council reports are relevant, consistent, reliable, understandable, and tailored towards the requirements of key users.
3. Using the reported information: Do the financial management governance and reporting arrangements support councillors and management to fulfill their stewardship responsibilities?

Councillors and management use internal financial management reporting to:

 - i) support budget decisions, resource allocation and cost setting (for example fees and charges)
 - ii) monitor financial sustainability
 - iii) assess operational efficiency, financial services and investments
 - iv) make improvements where necessary.

Audit scope and focus

In assessing the criteria, we considered MidCoast Council's financial management arrangements and practices for FY2019–20, FY2020–21 and FY2021–22. In doing so we checked the following aspects:

- financial governance and leadership
- financial planning
- financial monitoring and forecasting
- financial performance reporting
- maintenance of adaptation of financial arrangements during COVID-19.

Audit exclusions

The audit did not assess the effectiveness of:

- external financial reporting – except where this was produced identically to internal management reporting
- previous or planned financial management aspects examined in other performance audits
- roles, responsibilities and functions of the ARIC
- roles, responsibilities and functions of councillors.

Audit approach

Our procedures included:

1. interviews with council staff and executive responsible for financial management
2. examining relevant documents and data
3. understanding and evaluating relevant internal controls
4. reviewing and extending work undertaken in support of MidCoast Council's annual financial audit.

The audit approach was complemented by quality assurance processes within the Audit Office to ensure compliance with professional standards.

Audit methodology

Our performance audit methodology is designed to satisfy Australian Audit Standard ASAE 3500 Performance Engagements and other professional standards. The standards require the audit team to comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance and draw a conclusion on the audit objective. Our processes have also been designed to comply with requirements specified in the *Government Sector Audit Act 1983* and the *Local Government Act 1993*.

Acknowledgements

We gratefully acknowledge the cooperation and assistance provided by MidCoast Council. In particular, we wish to thank our liaison officers and staff that participated in interviews and provided material relevant to the audit.

Audit cost

Including staff costs, travel and overheads, the estimated cost of the audit is \$395,000.

Appendix four – Performance auditing

What are performance audits?

Performance audits determine whether State or local government entities carry out their activities effectively and do so economically and efficiently and in compliance with all relevant laws.

The activities examined by a performance audit may include a government program, all or part of an audited entity, or more than one entity. They can also consider particular issues which affect the whole public sector and/or the whole local government sector. They cannot question the merits of government policy objectives.

The Auditor-General's mandate to undertake performance audits is set out in section 38B of the *Government Sector Audit Act 1983* for State government entities, and in section 421B of the *Local Government Act 1993* for local government entities.

Why do we conduct performance audits?

Performance audits provide independent assurance to the NSW Parliament and the public.

Through their recommendations, performance audits seek to improve the value for money the community receives from government services.

Performance audits are selected at the discretion of the Auditor-General who seeks input from parliamentarians, State and local government entities, other interested stakeholders and Audit Office research.

How are performance audits selected?

When selecting and scoping topics, we aim to choose topics that reflect the interests of parliament in holding the government to account. Performance audits are selected at the discretion of the Auditor-General based on our own research, suggestions from the public, and consultation with parliamentarians, agency heads and key government stakeholders. Our three-year performance audit program is published on the website and is reviewed annually to ensure it continues to address significant issues of interest to parliament, aligns with government priorities, and reflects contemporary thinking on public sector management. Our program is sufficiently flexible to allow us to respond readily to any emerging issues.

What happens during the phases of a performance audit?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team develops an understanding of the audit topic and responsible entities and defines the objective and scope of the audit.

The planning phase also identifies the audit criteria. These are standards of performance against which the audited entity, program or activities are assessed. Criteria may be based on relevant legislation, internal policies and procedures, industry standards, best practice, government targets, benchmarks or published guidelines.

At the completion of fieldwork, the audit team meets with management representatives to discuss all significant matters arising out of the audit. Following this, a draft performance audit report is prepared.

The audit team then meets with management representatives to check that facts presented in the draft report are accurate and to seek input in developing practical recommendations on areas of improvement.

A final report is then provided to the head of the audited entity who is invited to formally respond to the report. The report presented to the NSW Parliament includes any response from the head of the audited entity. The relevant minister and the Treasurer are also provided with a copy of the final report. In performance audits that involve multiple entities, there may be responses from more than one audited entity or from a nominated coordinating entity.

Who checks to see if recommendations have been implemented?

After the report is presented to the NSW Parliament, it is usual for the entity's Audit and Risk Committee/Audit Risk and Improvement Committee to monitor progress with the implementation of recommendations.

In addition, it is the practice of NSW Parliament's Public Accounts Committee to conduct reviews or hold inquiries into matters raised in performance audit reports. The reviews and inquiries are usually held 12 months after the report received by the NSW Parliament. These reports are available on the NSW Parliament website.

Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant Australian standards.

The Public Accounts Committee appoints an independent reviewer to report on compliance with auditing practices and standards every four years. The reviewer's report is presented to the NSW Parliament and available on its website.

Periodic peer reviews by other Audit Offices test our activities against relevant standards and better practice.

Each audit is subject to internal review prior to its release.

Who pays for performance audits?

No fee is charged to entities for performance audits. Our performance audit services are funded by the NSW Parliament.

Further information and copies of reports

For further information, including copies of performance audit reports and a list of audits currently in-progress, please see our website www.audit.nsw.gov.au or contact us on 9275 7100.

OUR VISION

Our insights inform and challenge government to improve outcomes for citizens.

OUR PURPOSE

To help Parliament hold government accountable for its use of public resources.

OUR VALUES

Pride in purpose

Curious and open-minded

Valuing people

Contagious integrity

Courage (even when it's uncomfortable)

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