

**MINUTES OF THE AUDIT COMMITTEE MEETING  
HELD AT THE ADMINISTRATION CENTRE  
245 STURT ROAD, STURT  
ON TUESDAY 13 OCTOBER 2015**

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**PRESENT**

Mr Greg Connor (Chair), Mr Lew Owens, Councillor Tim Pfeiffer

**In Attendance**

Mr Adrian Skull	Chief Executive Officer
Ms Kathy Jarrett	Director
Mr Vincent Mifsud	Director
Ms Abby Dickson	Acting Director
Mr Ray Barnwell	Manager Finance
Ms Fiona Harvey	Manager Strategy
Ms Penny Woods	Partner Deloitte Touche Tohmatsu (items 7.2, 7.3, 7.5)
Mr Jason Liu	Client Manager Deloitte Touche Tohmatsu (items 7.2, 7.3, 7.5)

**1. OPEN MEETING**

The meeting commenced at 3.02pm. The Chair welcomed all those present to the meeting. The Chair advised the Committee that the order of the agenda will change to accommodate the series of discussions regarding the annual financial statements.

**2. KAURNA ACKNOWLEDGEMENT**

We begin by acknowledging the Kaurna people, the traditional custodians of this land and pay our respects to their elders past and present.

**3. MEMBERS DECLARATION OF INTEREST**

The Chair asked if any Member wished to disclose an interest in relation to any item being considered at the meeting. The Chair noted his membership on the Southern Region Waste Resource Authority Audit Committee.

**4. CONFIRMATION OF MINUTES**

**Moved Councillor Pfeiffer, Seconded Mr Owens** that the minutes of the Audit Committee meeting held on 18 August 2015 be confirmed as a true and correct record of proceedings.

**Carried**

**5. BUSINESS ARISING**

The statement identifying business arising from previous meetings of the Committee was reviewed and progress achieved against identified actions was noted.

Confirmation was sought on the status of item 1, the Project Management Review. The Committee was advised that a body of work to develop a project management system has been conducted and will be presented to the Committee out of session for their feedback.

**Action: Circulate project management review report out-of-session to Audit Committee for their feedback.**

Confirmation was sought regarding item 2, the Debtors Aging report. The Committee was advised that this report would be included in the suite of annual reports to the Committee. This report will be brought to the Committee annually in conjunction with the presentation of the report on the Annual Financial Statements.

The Committee queried whether item 4, the driver safety training sessions were classroom based, and whether there was value in having practical session for drivers in higher risk roles. It was advised that data on motor vehicle incidents would be analysed to assess where practical training may be beneficial.

## **6. ELECTED MEMBER REPORT**

### **6.1 Elected Member Representative Report to Audit Committee Report Reference: AC131015R6.1**

Councillor Pfeiffer presented the Elected Member report and, in addition to the written report, informed that Committee that, under the newly adopted Council committee structure, he would not be nominating for reappointment to the new Finance and Audit Committee. Councillor Pfeiffer recognised the highly valuable work of the Audit Committee and thanked current and past members for their support during his time on the Committee.

The Committee noted the comprehensive nature of the Terms of Reference for the newly formed Finance and Audit Committee and sought clarification on item 6.5 in the terms of reference regarding the timing of the bi-annual review of the Committee's performance. The Committee was advised that a bi-annual review is due to be scheduled shortly and the methodology for the review used in the past, the LeBlanc survey, is being considered and may be revised for the next review.

**Action: Add the bi-annual review of the Committee to the 2016 annual work program**

The Committee also sought confirmation of the engagement term of the external auditor-Deloitte Touche Tohmatsu and were advised that their term expires at the end of 2015/16. The Committee were also advised that the external auditor has put in place a rotation policy in relation to the auditors undertaking audits at the City of Marion over the term of their engagement. The Committee was advised that the review of the contract for the engagement of the external auditor is included in its 2016 annual work program.

**Action: Add the external auditor contract review to the 2016 annual work program**

The Committee requested that any changes made to policies, Terms of Reference and other Committee documentation be marked in red when presented to the Committee so they can be easily recognised.

The Chairman also thanked Councillor Pfeiffer for his contribution to the Committee.

## 7. REPORTS

### **Corporate and Financial Management**

The Chair noted the combination of reports relating to the Annual Financial Statements and advised the Committee that overviews from the City of Marion and the external auditor representing Deloitte Touche Tohmatsu would be provided and then the Committee will formally consider each individual report.

Mr. Barnwell, Manager Finance, provided a brief overview of the key points in relation to the City of Marion's 2014/15 Annual Financial Statements:

- A high level analytical review was provided (pages 191-192 of the agenda) which explained the main variances in the Comprehensive Income Statement and Statement of Financial Position against the 2013/14 position.
- The Statement of Comprehensive Income showed a continued sound financial performance with a positive underlying operating surplus for the tenth year in a row. The operating surplus reported for 2014/15 is \$10.027m. This included a substantial increase in Grants of \$2.3m predominantly relating to advance payment of an installment of 2015/16 Grants Commission's Financial Assistance Grants (FAG) received in the 2014/15 year.
- The adoption of the 2014/15 budget came with a commitment given to making a concerted effort and having a strong focus on pursuing efficiency and effectiveness savings throughout the year resulting in the strong financial position being presented in the 2014/15 annual Financial Statements.

Mr Barnwell informed the Committee that the audit process went very well, with no issues or delays arising. The result from the audit of the financial statements of no significant issues and an unmodified audit report being issued was very pleasing. In addition the audit on the effectiveness of Internal Controls demonstrated that all of last year's points raised had been appropriately dealt with.

3:25pm Ms Penny Woods, Partner and Mr Jason Liu, Client Manager Deloitte Touche Tohmatsu entered the meeting.

Ms Woods provided a verbal summary of key points regarding the 2014/15 audit of financial statements and internal controls. Ms Woods confirmed that the audit is now completed and Deloitte can now proceed to sign the financial statements. Ms Woods also confirmed that:

- The City of Marion would receive an unqualified audit opinion for the 2014/15 Annual Financial statements and an unqualified audit opinion on the effectiveness of the Internal Controls for 2014/15.
- There may be an opportunity for improvement moving forward to streamline and consolidate internal controls to reduce number of core controls.
- There were no issues raised during the audit process. Management has been very helpful with no delays encountered during the process.

The Committee noted the summaries provided by Mr Barnwell and Ms Woods and congratulated staff, and in particular the Finance Team, for the excellent results of the 2014/15 audit and its outcomes. It was noted that all actions from the previous year's audit on Internal Controls had been addressed which was very pleasing.

The Committee requested that the 'Analytical Review' provided in Appendix 6 (explaining the major variances shown in the Financial Statements) be presented in the future, at the front of

the suite of reports, as it provides valuable information in preparation for review of the detailed reports.

## **7.2 Independence of Council's Auditor for the year ending 30 June 2015 AC131015R7.2**

Deloitte Touch Tohmatsu's Partner Ms Woods provided a verbal statement of independence as part of her summary report to the Audit Committee.

**Moved Councillor Pfeiffer, Seconded Mr Owens** that the Audit Committee:

1. Note the statement provided by Council's Auditor attesting to their independence in accordance with the Local Government (Financial Management) Regulations 2011 for the 2014/15 financial year.
2. Note that the CEO will be signing a statement that Council's external auditor Deloitte Touche Tohmatsu maintained their independence in accordance with the Local Government (Financial Management) Regulations 2011 for the 2014/15 financial year.
3. Endorse the Chairperson signing a statement that Council's external auditor Deloitte Touche Tohmatsu maintained their independence in accordance with the Local Government (Financial Management) Regulations 2011 for the 2014/15 financial year.

**Carried**

## **7.5 Meeting with external Auditors (in confidence) AC131015R7.5**

**Moved Councillor Pfeiffer, Seconded Mr Owens** that the Audit Committee:

1. pursuant to Section 90(2) and (3)(b) of the *Local Government Act 1999*, orders that all persons present, with the exception of Ms Penny Wood (Deloitte) be excluded from the meeting as the Audit Committee meets with Councils external auditor to discuss the end of financial year audit, on the basis that the Audit Committee is satisfied that the requirement for the meeting to be conducted in a place open to the public has been outweighed by the need to keep consideration of the matter confidential given the information relates to commercial information of the Council.
2. Provide a summary statement to be included in the Audit Committee Minutes.

**Carried**

3:40 pm The meeting went into confidence and all staff present left the meeting.

The Audit Committee and Elected Members present held a discussion with Ms Penny Woods and Mr Jason Liu from Deloitte. Through the discussion the auditors reported that there were no issues of substance they wanted to raise with the Committee, and that the response and support from Management throughout the Audit was of the highest order. All issues and requests were dealt with in a timely and professional manner.

3.55 pm The meeting came out of confidence.

### **7.3 Audited Annual Financial Statements for the year ending 30 June 2015 AC131015R7.3**

The Committee considered the detailed audited annual Financial Statements for the year ending 30 June 2015 and sought clarity on a range of elements in addition to the Analytical Review presented in Appendix 6, accompanying the audited annual Financial Statements.

The Committee sought clarification on the increase in net surplus from operations, and was advised that a significant contribution to this surplus was due to the early receipt of a \$1.4m Financial Assistance Grant payment received in 2014/15 which relates to the 2015/16 financial year. The adoption of the 2014/15 budget also came with a commitment given to making a concerted effort and having a strong focus on pursuing efficiency and effectiveness savings throughout the year resulting in the strong financial position being presented in the 2014/15 annual Financial Statements.

The Committee noted that the 'Net Financial Liabilities' presented on page 42 of the report is not a ratio, rather a representation of total Net Financial Liabilities.

The Committee noted the variance in the prior year user charges figures provided in the Statement of Comprehensive Income and the Statement of Cash Flows, along with the reference to the full expenditure of grants for the Cove Civic Centre in 2013/14 on page 79 should be reviewed and appropriately updated prior to adoption by Council. They also reiterated the need to ensure explanatory notes provide clarity in areas of significant variances such as the increases in 'Physical Resources Received Free of Charge' from developers including roads, bridges and footpaths (page 68).

The Committee queried the reason employee leave expenses had increased in 2014/15 and were advised that this was due to improved reporting resulting in the 2014/15 leave expense being reflected more accurately. The Committee was also provided clarification that the contractors expenses only includes engagement of external parties. Agency hire staff are appropriately captured within Employee Costs and FTE numbers.

The Committee noted that the category under the Employer of Choice heading on pg 84 should be updated to read Work, Health and Safety.

The Committee discussed the process and controls in place for ensuring that monies allocated to Super Funds are actually paid into those funds. The Committee recommended that appropriate processes are in place as part of the Annual Financial Statements process to verify this.

**Action: Ensure appropriate processes are in place to verify that the transfer of funds to Superannuation Accounts occurs in accordance with legislative requirements.**

The Committee also sought clarification regarding whether any increase in employer contributions is needed into Defined Benefit Fund. The Committee was advised that an independent bi-annual actuarial review is undertaken to ensure contributions are adequate. The Committee was advised that current funding levels in the Defined Benefit Fund are adequate.

The Committee sought further details regarding the benefits in being part of the Council Solutions Regional Authority and advised it would be useful to provide an annual overview regarding the benefits in being part of both Southern Regional Waste Resource Authority (SRWRA) and Council Solutions.

**Action: Provide details regarding the benefits and value of being part of SRWRA and Council Solutions, to accompany the future annual Financial Statements reports.**

The Committee discussed the three key areas of focus included in the information paper 'Model Work Program for Council Audit Committees' developed by the Local Government Association and queried whether these areas had been adequately addressed as part of the preparation and deliberations on the annual financial statements. Confirmation was provided that these key areas of focus had been comprehensively covered, however cross referencing back to these areas of focus will become part of reporting in the future.

**Action: Cross reference against areas of focus in information paper 'Model Work Program for Council Audit Committees' and provide analysis as part of ongoing reporting to the Committee.**

**Moved Cr Pfeiffer, Seconded Mr Owens** that the Audit Committee:

1. Recommend to Council that the audited Annual Financial Statements for the year ended 30 June 2015, as attached at Appendices 1-4, be adopted.
2. Note Deloitte's management letter, as attached at Appendix 5
3. Note the comparative analysis to prior year Audited Financial Statements (Analytical Review), as attached at Appendix 6

**Carried**

4:30pm Ms Woods and Mr Liu left the meeting

## **7.1 Audit Committee Annual Report to Council 2014/15**

**Ref No: AC131015R7.1**

The Audit Committee noted the report and made the following comments:

The Committee requested that future annual reports align with the elements in the Committee's Terms of Reference. Clarification was provided that the annual agenda program for the Committee closely aligns with the Terms of Reference and the report follows the agenda structure. Further improvements will be made to the report to strengthen alignment with the Terms of Reference.

**Action – Cross reference the current Annual Report against the Committee's Terms of Reference to ensure all elements of Terms of Reference have been considered.**

The Committee requested that the draft Asset Management Plan approval process always includes tabling with the Audit Committee prior to presentation to the Council, as was the case in 2014/15.

The Committee also requested that a further key point be added to the report to reflect the focus on strengthening the information sharing and reporting between the Audit Committee and Council. It was agreed that a focus on embedding good two-way reporting over the past year has been very beneficial for both the Audit Committee and Council.

The Committee noted some minor editorial amendments to the Annual report which will be revised before tabling with Council on 27 October.

Councillor Gard sought advice regarding the need to strengthen reporting and alignment on delivery, particularly in respect of Council's resolutions, against various strategic, operational and financial plans. The Chair of the Audit Committee noted that this is a primary role and responsibility of the CEO. Ms Jarrett provided further clarity regarding the system of reporting of corporate KPIs on a quarterly basis to Council. This includes reporting progress of Council resolutions and will also focus on strengthening alignment of plans and delivery in 2015/16.

**Moved Mr Owens, Seconded Councillor Pfeiffer** endorses the Annual Report to Council for 2014/15 provided at Appendix 1 to this report, subject to amendments as required, prior to being presented to Council at the 27 October 2015 General Council meeting.

**Carried**

#### **7.4 Debtors Report AC131015R7.4**

The Committee noted the report and queried whether any debts were written off during the 2014/15 year and were advised that only a small number of very minor debts, totaling less than \$500, had been written-off during the year. As previously advised to the Committee the Debtors Ageing report will be provided annually with the year-end Financial Statements.

**Action: The Committee sought further information on the actual recovery of debts in the past year from debts preserved in the deferred rates category following sale of the property.**

#### **7.6 Investment Performance 2014/2015 AC131015R7.6**

The Committee noted the Investment Performance Report 2014/15 and sought clarification regarding the risk that may be associated with investing monies with the Local Government Finance Authority (LGFA) given the City of Marion's current consideration of its membership with the Local Government Association (LGA). The Chief Executive provided clarity that the LGFA is a separate entity to the LGA and membership of the LGA is not a prerequisite for the LGFA.

The Committee provided advice regarding benchmarking of investment performance, and that it would be useful to benchmark against commercial rates being offered by one or more of the big 4 banks, in addition to the Reserve Bank cash rate.

#### **7.7 Asset Valuation Process and Outcomes for 2014/2015 AC131015R7.7**

The Audit Committee noted the report and advised management to discuss the change in process regarding annual desktop valuations for Non-Infrastructure Assets with the external auditors (Deloitte) to ensure they were comfortable with the proposed change before implementing it.

The Committee also advised that the Non-Infrastructure valuation report should still be reviewed annually by Finance. This will ensure that if any material movements do occur, appropriate adjustments are made in the Annual Financial Statements to reflect these movements.

**Action: Seek advice from Deloitte regarding the proposed change to the desktop valuation process for Non-Infrastructure Assets prior to implementing the change.**

### **Risk Management**

Nil

### **Program Evaluation**

#### **7.8 Hard Rubbish Service Review Project Brief AC131015R7.8**

The Committee noted the report and sought clarification regarding the scope of the hard rubbish review, specifically whether it would include difficult waste streams such as e-waste, paint and batteries. The Committee was advised that the scope of the review would not include these types of waste, and would focus on waste that is part of the Hard Rubbish collection service. The importance of containing the scope of this review was explained to the Committee as this will be the first review under the new service review program and it provides a valuable project to inform the continued development of the system and review approach. Hence it is critical to complete this review in a timely manner to support the roll out of the next suite of reviews.

The Committee also queried whether there is adequate internal expertise regarding management of specialised waste streams and difficult waste management challenges. The Committee was advised that the City of Marion has good internal expertise for this review, and also has access to expertise at the Southern Region Waste Resource Authority, and other Councils such as City of Charles Sturt which has recently undertaken a targeted waste review from which we are able to learn. As this project is the first new service review, the approach, information and expertise to be sought, will continue to be assessed as the review progresses.

#### **7.9 Internal Audit and Service Review Update AC131015R7.9**

The Committee noted the report and provided feedback that they supported the proposed approach for the service review program. The Committee requested that this report, with a progress update, be added to the Audit Committee meeting in December to enable the Committee to consider the Internal Audit and Service Review program in more detail.

**Action: Add the Internal Audit and Service Review Update report to the December Audit Committee meeting agenda.**

The Committee discussed the way in which the services are defined and that this would likely influence the focus, process and outcomes of the review. They advised it would be worthwhile to compare the current City of Marion service list with the way in which other councils define their services. The Committee was advised that the service list and definitions will continue to

be reviewed and their priority for a service review will be considered at a number of levels. An update on this process will be provided to the Audit Committee at its December meeting.

**8. CONFIDENTIAL ITEMS**

Nil

**9. ANY OTHER BUSINESS**

The Audit Committee Chair invited the new Chief Executive Officer Mr Adrian Skull to provide any comments to the Committee. Mr Skull provided comments regarding a key priority being managing the carryover issues related to the Capital Works program and that he will ensure that this issue is managed as quickly and effectively as possible. He also informed the Committee that he provided a report to Council after his first 30 days in the role, covering his early views of a range of aspects of the organisation.

Councillor Pfeiffer sought clarification regarding contributed assets, and specifically whether engineering standards are required to be met for these assets. This question was taken on notice, with a response to be provided to the Audit Committee.

**Action: Provide the Audit Committee with comment regarding if contributed assets are specifically required to meet engineering standards.**

**10. MEETING CLOSURE**

The meeting was declared closed at 5.27 pm

**11. NEXT MEETING**

The next meeting of the Audit Committee is scheduled to be held on:

**Time: 3.00 pm - 6.00 pm**

**Date: 15 December 2015**

**Venue: Chamber, Administration Building, 245 Sturt Road, Sturt**

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**CHAIRPERSON**

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