

**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON MONDAY 15 JUNE 2015**



PRESENT

Mr Greg Connor (Chair), Ms Kathryn Presser, Councillor Tim Pfeiffer

In Attendance

Mr Geoff Whitbread	Acting Chief Executive Officer
Mr Vincent Mifsud	Director
Ms Kathy Jarrett	Director
Ms Kate McKenzie	Manager, Governance
Mr Ray Barnwell	Manager, Finance (item 7.1 & 7.2)
Mr John Sliverblade	Manager, Strategic Assets (item 7.3)
Ms Sherie Walczak	Unit Manager, Risk (item 7.4 & 7.5)
Mr Kyffin Thomson	BDO (item 7.7)

1. OPEN MEETING

The meeting commenced at 3.02pm. The Chair welcomed all those present to the meeting, including the new independent member, Ms Kathryn Presser.

Ms Presser introduced herself to the meeting by providing an overview of her skills and experiences and thanked the Council for inviting her to be a Member of the Committee.

2. KAURNA ACKNOWLEDGEMENT

We would like to 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. No interests were disclosed.

4. CONFIRMATION OF MINUTES

Moved by the Chair (Mr Connor), Seconded Councillor Pfeiffer that the minutes of the Audit Committee meeting held on 14 April 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. The Committee noted that a number of actions had been completed and congratulated staff on this achievement.

6.1 ELECTED MEMBER REPORT

Councillor Pfeiffer welcomed Ms Presser to the Committee on behalf of the Council and reiterated that the Council was very pleased to have her on board.

Councillor Pfeiffer presented the Elected Member Report as read, noting that since the last meeting Council had made significant progress on a number of items as follows:

- Sports infrastructure being confirmed as a focus of this Council. Council agreed that it would be difficult to achieve the four Sports Masters Plans estimated at \$72m in total and hence had prioritised:
 - Options for new soccer pitches and a BMX track in the South.
 - Indoor multipurpose Stadium that meets SA regional standards (4-8 Courts).
 - Edwardstown Oval Masterplan.
 - Mitchell Park Sports and Community Club building upgrade.

More work is required regarding feasibility and detailed plans. Council will need to work with other levels of government to achieve outcomes. It was noted that these projects have not been reflected in the draft 2015-16 annual budget or the Long Term Financial Plan, as they are in the early stages of development.

- Council has adopted a draft 2015-16 Annual Business Plan and Budget (ABP&B) that progressed to public consultation. It was noted that the number of people responding to the consultation was low but consistent with previous years. The Audit Committee consideration of the draft ABP&B is the last step before Council adopts the final version at its meeting of 23 June 2015. The Council has recognised the previous comments of the Audit Committee suggesting that Council should not be relying on a 5% rate increase year on year. Council has set a rate increase of 2.9% which is still above inflation but significantly reduced from 2014/15.
- The Council's previous approach of 5% rate increase over the course of the LTFP had contributed to a large investment into the city with a number of key infrastructure projects and Council moved from recording a funding deficits to funding surpluses. It was acknowledged that additional funds from a 5% rate was spent wisely and created some great outcomes for the City of Marion.
- Council resolved that the Community Facilities Partnership Program (CFPP) will be a cash reserve separately quarantined within the Asset Sustainability Reserve. Council's intent is to use it primarily for renewal of building assets and also create opportunity to draw down on funds at short notice, particularly for grant funding opportunities. The Committee cautioned that this Reserve should not be viewed as a pot of money as it has previously been allocated for building renewal. The risk is that existing assets will fall into disrepair. Council should be aware of the impact when spending the CFPP. If possible, when presenting reports to Council, Management should look to highlight impacts for councils consideration.
- Council also resolved to cease its nursery operations as it was determined that it would be more cost effective to purchase plants commercially rather than internally.

The Committee thanked Councillor Pfeiffer for his report and noted his comments.

7. REPORTS

Corporate and Financial Management

7.2 Annual Business Plan & Budget 2015/16, and Long Term Financial Plan Report Reference: AC150615R7.2

3.21 pm – Manager Finance entered the meeting.

Mr Mifsud (Director) provided an overview of the report and highlighted that feedback was being sought from the Committee on the Annual Business Plan and Budget (ABP&B) for 2015-16 and the Long Term Financial Plan (LTFP) in regards to:

- Fairness and equity of Council's proposed rating approach for 2015/16, including in the context of Council's LTFP and on-going financial sustainability.
- Reasonableness of the key assumptions used in the development of the Draft ABP&B 2015/16 and Draft LTFP.
- Changes to the financial policies.
- Additional financial indicators as included in this report.

The Committee noted the report and that Council had endorsed the draft 2015-16 ABP&B at its meeting of 9 June 2015 for final consideration at its 23 June General Council Meeting. Discussion occurred with the Committee providing comments on the following:

- The organisation should be congratulated on the saving achieved within the ABP&B.
- Contractor Services forecasts a significant expenditure reduction which may be an ambitious target. The Committee noted the variance from the 3rd quarter budget review to the draft budget for 2015-16 equated to an approximate \$4m reduction. Management confirmed this was achievable with the reduction being due to once off budget variations on prior years (\$1,350k), projected on-going savings (\$911k) and once off carryovers from 2013/14 (\$1,814k).
- The net reduction in employee costs for 2015-16 of 1.95% is an excellent achievement. The Committee queried the likelihood of this being replicated year on year and noted it would be difficult to achieve the same results in future years without significant changes to services or service levels.
- Caution should be taken regarding the identified savings and the key assumptions within the LTFP. The assumptions may create challenges into the future and require closer review particularly the assumption of 2% employee costs. This assumption within the LTFP equates to a \$43.2m reduction in employee costs across the life of the LTFP. Council needs to consider if this is realistically achievable and can therefore be realised.
- Community Facilities Partnership Program (CFPP) funding is now quarantined as part of the Asset Sustainability Reserve (\$5.6 million for 2015/16, and a total of \$35.1 million over the term of the LTFP). These funds can only be accessed via a resolution of Council. Discipline needs to be applied to ensure it is used for building renewal, including an understanding of the risks and consequences of using this reserve for matters other than renewal. When Council does consider using this fund for matters other than building renewal, it should ensure the whole of life impact is assessed and appropriately provided for in the LTFP. Council should also consider a standard reporting line of risks and consequences to ensure the decision making process is sound.
- The Committee noted that the CFPP inclusion into the Asset Sustainability Reserve has impacted on the closing cash balance of the LTFP by including an additional \$35.1m.
- The projected closing cash balance at the end of the 10 year LTFP of \$82m should not be considered as "money in the bank" as the assumptions may not be realistic and

may be quite challenging. It is important for Council to understand the impact of the change in assumptions particular the employee cost assumption (\$43.2m) and the impact of maintaining the CFPP as a cash reserve (\$35.1m) have on the LTFP projected closing cash balance.

- The additional financial ratios were noted, particularly the working capital ratio (quick ratio) as this was considered to be high. This ratio was directly impacted by the change to the CFPP and is not necessarily a true reflection of the Council's cash position, as these funds are restricted in their use. Adjusting this ratio for the impact of the CFPP would drop it from 1.7 to 1.25.
- For future reporting, it was requested that the draft budget is presented in a manner that addressed the risks and outcomes achieved. Management responded highlighting it was comfortable with the draft budget for 2015-16 including the identified savings. The risks noted related to challenges in achieving the financial projections in the LTFP with concerns regarding the flow on effect of the change to various key assumptions including the employee costs. It was noted that the organisations monthly operational costs require working capital in the order of \$3m.
- Service reviews will be undertaken in the new financial year and Council will need to further evaluate its services and services level to make decisions about future operations.
- Due to the importance of staff wellbeing and safety, the Committee suggested Council consider setting a target for measuring lost time injury at zero. This sends an aspirational message from the leadership of the organisation that they do not want to see anyone injured whilst at work.
- It may be useful for Council to provide a more descriptive target within Section 5 'Measuring Our Success' of the ABP&B. The measure of 'high level of achievement' for the last two indicators may be too vague for Management to be properly held accountable for outcomes.
- The Asset valuation process was noted which includes an independent comprehensive valuation every 3 years and a desk top valuation in the intervening years. It was recommended that the Asset Accounting Policy be amended to reflect this.
- The financial policies and the recommend changes were noted.

Overall the Committee commented that the ABP&B was a very comprehensive document and the discussions between Council and management must have been good to achieve such a positive outcome. The Committee reiterated that Council needs to understand how the LTFP is constructed and the forecast of \$82m 'closing cash balance' is probably not the likely outcome. The Committee thanked staff for their hard work and achieving the savings challenge set by the Council.

7.1 Deloitte Audit Engagement for the Year Ending 30 June 2015 Report Reference AC150615R7.1

The Committee noted that Ms Penny Woods from Deloitte would not be present at the meeting until 5.30 pm, however given her absence and this is now the 4th year of Deloitte providing external audit services to the City of Marion, the Committee determined to proceed with the paper.

The Committee acknowledged that the interim audit commenced today and it would be useful to look at the timing of the Audit Committee Meeting schedule for 2016 to allow for more time for decision making.

Management confirmed that it was comfortable with the scope and timing of the Audit and the Finance Team is well positioned to respond.

The Audit has two scopes of work being the statutory audit and the internal controls audit.

It was suggested that the fees associated with the internal control audit should be reduced from last year's fees as last year was the first audit of this nature and a full comprehensive audit was conducted. As such it is reasonable to expect that the scope of work for the current year should not be to the same extent as last year.

The Committee noted the audit scope and fees and suggested that Management continue to negotiate with Deloitte for an appropriate fee reduction for the internal control audit. Subject to further review, the Committee noted that the Acting CEO will execute the acknowledgement of the engagement letters.

ADJOURNMENT

3.57 pm The Chair adjourned the meeting for 10 minutes.

4.07 pm The Meeting resumed.

7.3 Asset Management Plans – Final Draft Report Reference: AC150615R7.3

4.10 pm – Manager Strategic Assets entered the meeting

The Manager Strategic Assets provided an overview of the Asset Management Plans highlighting that all asset plans have been consolidated into a single plan that draws data from a series of background papers and now complied with the Asset Framework previously set by Council.

The AMP states like for like replacement and does not include any new or upgrades to assets with the exception of storm water drainage and signage. The AMP creates a foundation for decision making in the future.

The Committee commended Management stating that the AMP was a shorter and more consistent document. It was noted that the current funding forecast for Council for the delivery of the AMP, excluding building renewals, equates to \$216.6m over the life of the LTFP.

Page 140 of the agenda contained a typo. The last paragraph before the table states "However, using the \$93m figure..." This should read \$49m and not \$93m.

The Committee raised the following points for Council to consider:

- The AMP only reflects like for like renewal. No new works are included, except for storm water drainage.
- The AMP reflects a projected funding shortfall of \$10.2m, which was highlighted as being a "best case" scenario. There are a number of ways for this to be addressed and one of them may be through asset disposal of underutilised assets.
- The figure of \$49m for building renewals (which is based on accumulated depreciation to 30 June 2014) is likely to be low. This means that the identified funding gap of \$10.2m may in fact be close to \$20m or \$30m over the course of the LTFP. It is important that Council regularly reviews and updates the AMP as further information, in particular in relation to building renewal, comes to hand to ensure that any further funding gaps are identified.
- The CFPP can be used for alternate purposes but Council should be aware that if funds are used for the upgrade and/or purchase of new assets, the increase in whole of life costs associated with those new assets/upgrades, including future renewal costs, will

need to be appropriately considered and provided for in the AMP and LTFP, creating a larger funding shortfall.

- Strategic Projects are not included in the AMP or LTFP and will need to be prioritized and presented as a business plan. Additionally, any project with a value over \$4m will need to comply with the requirements of section 48 of the Local Government Act 1999 with the completion of a prudential report including all financials and whole of life costs.
- Council leases require many of the small community groups to undertake maintenance work on the leased properties. From experience, Council is aware that some community groups are not maintaining the buildings to Councils required standards. The Committee noted that many of these community groups are only paying a “peppercorn” rent to Council and they have a legal responsibility to ensure the terms of the lease are fulfilled. It was also noted that often leases are only as good as they are managed. Unless monitored regularly, often parts of the lease obligations will not be fulfilled.
- It is important for the LTFP and the AMP to be considered together as they are inter-related.
- The disposal plan on page 180 of the agenda identifies assets for disposal of playgrounds that needs to be considered as part of the Playspace Strategy. These items have been identified as surplus and are planned to be disposed of in coming years in accordance with Council’s resolution. If disposed of, the costs of remediation of each site has not been included within the AMP. The disposal relates to the playground equipment only and not the sale of the land.
- Most land owned by the Council is classified as Community Land. If Council resolved to sell any land, the Community Land title must be revoked by Ministerial approval.

Moved Councillor Pfeiffer, Seconded Ms Presser, that the Audit Committee recommends to Council that the Asset Management Plan be adopted for community consultation.

Carried

Risk Management

7.4 Strategic Risk Profile

Report Reference: AC150615R7.4

4.41pm Unit Manager Risk entered the meeting

The Unit Manager Risk provided an overview of the report outlining that the Strategic Risk Profile is aligned to the six community themes contained within the Community Plan and an additional risk of ‘Optimising Organisational Excellence’.

The Committee noted the report and the risks presented. The Committee suggested that some more granular detail within the Strategic Risk Profile may be useful.

The Unit Manager Risk advised that the Strategic Risk Profile is at a higher level and the granular details are within the Operational Risk Registers. It was agreed that any operational risks that sit outside risk tolerances should be reported to the Committee.

The Committee confirmed their role as an advisory body to Council and suggested that Council also has a role regarding monitoring strategic risk.

The Committee noted the work undertaken on the Strategic Risk Profile and the next steps regarding review of the Operational Risk Registers, Risk Management Framework and Policy.

7.5 Annual Report of WHS Program

Report Reference: AC150615R7.5

The Committee noted the report and sought confirmation from Management regarding the risk to employees across the organisation. Assurance was provided that WHS systems and process are in existence and the non-conformances identified via the Local Government Association Worker Compensation Schemes (LGAWSC) Audit are based on evidencing the implementation of the systems and process. The Risk Unit is focusing on consistent documentation and implementation across the organisation. The implementation of the systems across the organisation forms a substantial part of the required work.

The Committee noted the WHS monitoring report and suggested the following:

- Benchmark data from other Councils could be beneficial
- Further details (i.e. raw data) regarding WHS incidents would be useful, particularly around the number of incidents, when and how they occurred.
- Reporting of such information (e.g. in the Annual Report) should be considered.

The Committee sought clarification from Management regarding the percentage completed status on the WHS program and assurance was provided that this was the percentage of the work completed, not the percentage of tasks completed. Management also advised that high risk actions are progressing as a priority. It is anticipated that significant progress would be achieved by the next audit to be completed by the Workers Compensation Scheme.

Program Evaluation

7.6 Review Recommendations Update (Core Assurance and Service Reviews)

Report Reference AC150615R7.6

The Committee noted the report and that the tender for core assurance and service reviews had closed. The process for evaluations and shortlisting had commenced. It was noted that presentations by shortlisted tenderers are scheduled to be held in the week commencing 29 June and that the chair of the Audit Committee would be present. It was anticipated that a further report would be presented to the Committee at the next meeting in August with a recommendation of a preferred contractor.

Councillor Pfeiffer suggested that Council would like to have more oversight of the service review program and Management confirmed that the service review program would be coming to an Elected Member Forum in July for further discussion with the Council. The services being tendered will run in parallel or compliment the service review program which is anticipated to be an internally managed program with assistance from the external provider.

7.7 Contractor Management Service Review

Report Reference: AC150615R7.7

5.04 pm Mr Kyffin Thomson from BDO entered the meeting

Mr Thomson confirmed that the review of Contractor Management was initiated to consider the processes and procedures across City of Marion regarding the aspects of the management of contracts and contractors including the procurement life cycle from tender specification through to contract review and post implementation. It was noted that the review linked to the outcomes of the LGA WSC audit outcomes as outlined within item 7.5 of the agenda.

The Committee acknowledged the decentralised approach for contract management and numerous officers are responsible for managing contracts. The review identified that different areas responsible for contractor management had different processes and recommended that a consistent management system be implemented particularly around Work Health and Safety and Environmental Management.

A contractor management checklist was being developed to ensure consistency and provide guidance regarding what is required. The Committee suggested the checklist should confirm what aspects are mandatory for every contract.

It was noted that the current system (Bluepoint Records Management System) was a barrier to effectiveness as it was not user friendly. The Committee suggested that if the matters identified related to safety, it should be mandatory for all contract managers to be using the system.

Assurance was provided that the migration to a Microsoft program in the 2015-16 financial year will address the record keeping issues but in the meantime, this will be addressed with contractor managers.

8. CONFIDENTIAL ITEMS

Nil

9. ANY OTHER BUSINESS

10. MEETING CLOSURE

The meeting was declared closed at 5.16 pm

10. NEXT MEETING

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

Time: 4.00 pm - 6.00 pm

(Followed by a joint session with Council and the Audit Committee from 7pm)

Date: 18 August 2015

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

.....
CHAIRPERSON

/ /