

**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON TUESDAY 16 DECEMBER 2014**



PRESENT

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

In Attendance

Mr Mark Searle	Chief Executive Officer
Mr Vincent Mifsud	Director
Ms Kathy Jarrett	Director
Ms Kate McKenzie	Manager Governance
Mr Ray Barnwell	Manager Finance

1. OPEN MEETING

The meeting commenced at 2.02 pm. The Chair welcomed all those present to the meeting.

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 declared.

4. CONFIRMATION OF MINUTES

Moved Mr Owens, Seconded Councillor Pfeiffer that the minutes of the Audit Committee meeting held on 14 October 2014 be confirmed as a true and correct record of proceedings.

The Committee noted that the minutes from the previous meeting stated that a truncated version of the Local Government Association Mutual Liability Scheme Risk Review was completed. A formal report has not been received to date. The Committee noted that the Scheme has provided a rebate to the Council of approximately \$120,000 due to the performance of the scheme.

Action: Follow up and report to the Committee if a formal report will be received regarding the truncated risk review.

Carried

Elected Member Representative Report to Audit Committee
Report Reference: AC161214R4.1

Councillor Pfeiffer presented the report as read noting that much of this last period was in Caretaker mode because of the local government elections held in November 2014.

Notwithstanding this, Council had adopted the end of year financial statements for the period ending June 2014 and the associated investment performance report. He noted that this was a great result and thanked the finance team for their work.

Councillor Pfeiffer advised the Committee that the new Council was significantly different with a new Mayor and seven new Councillors. The new Council has a positive achievement focus with a strong financial drive. The Council has expressed an interest in savings and lower rate rises. This will require discipline, especially if Council wishes to deliver capital projects.

Finally, Councillor Pfeiffer also advised the Committee that \$750,000 grant funding had been received from the Department of Planning, Transport and Infrastructure (DPTI) following election pledges made during the state government election earlier in 2014. This creates a significant opportunity for improvement infrastructure and enables Council to progress with a number of key projects. These grants require no financial contribution from the Council.

The Audit Committee welcomed the approach and offered to assist Council wherever the Committee can provide advice and support, including attendance at Elected Member Forums as part of the development of the Annual Business Plan and Budget 2015/16.

Moved Councillor Pfeiffer, Seconded Mr Owens the Audit Committee note the report.

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 following was noted by the Committee;

- The revised due date in item 1 requires changing to April 2015.
- The Acquisition and Disposal of Land Policy was discussed in the context of the excess land at City Services. It was noted that this would be considered by Council in the new year with a decision to be made regarding the strategy and approach for disposal of the excess land.
- Three of the five audit recommendations relating to ICT have been closed. The other two are in progress. A progress report will be brought to the Audit Committee in June 2015.

Action: Progress report to be presented to the June 2015 Audit Committee meeting, including a formal response from Civica.

- The work scheduled had been amended with the Corporate Risk Review and the Ombudsman Annual Report being reported to the April 2015 meeting.

The Committee requested that the size of the agenda for the April meeting be manageable and not too large.

6. REPORTS

Corporate and Financial Management

The Chief Executive advised the Committee that clear direction had been received from Council regarding lower rates, efficiencies and effectiveness. The previous Council had resolved to progress the preparation of the Annual Business Plan and Budget for 2015/16 with a savings target of 5% and the new Council has expressed a focus on openness, outcomes and frugality.

Budget preparation will progress through the Christmas period. Savings of \$3.8m are being targeted, without any impact on service delivery.

6.1 Financial Indicators – Summary Report **Report Reference: AC161214R6.1**

In May 2014, the Committee noted that the current mandated financial indicators were not entirely reflective of the Council's true financial position. At this time, the Committee requested that research be completed on a set of indicators that would represent a more holistic approach and look beyond the operating statement and consider Council's long term cashflow and funding position.

After research, three indicators have been presented for consideration. These are:

- Working Capital Ratio (Quick Ratio)
- Debt Service Coverage Ratio
- Operating Cash Flow Coverage Ratio

The Committee made the following comments about the proposed ratios:

- The ratios are a step in the right direction but are concerned that the underpinning philosophy reflects a cautious and conservative approach towards borrowings.
- Consideration should be given for debt to contribute towards assets if the debt is associated with extending the life of the asset. The cost will therefore be shared across the generations that will use the asset into the future.
- The concept of 'intergenerational fairness' should be explored further and reflected within Council's Treasury Management Policy to ensure Council is not asking too much of today's residents.
- A reasonable amount of debt is appropriate, taking into consideration the environment in which Council operates. This should be considered in the context of what is an appropriate level of debt based on the Council's risk appetite and profile. Further consideration should be given regarding the target ranges.

Further explanation was provided to the Committee stating that:

- Councils approach has been to fund maintenance and renewal of assets from operating cash flow as this is a large part of Councils 'normal' business. It is not the intent to have zero borrowings. If Council chooses to fund a new strategic initiative, there is a case to borrow funds.

- The indicators need to be considered as a suite. The importance of cash flow and funding is critical to ensure that Council can service any new loans.
- The Debt Service Coverage ratio is useful as it demonstrates what 'good debt' can be. Long term infrastructure costs could potentially be funded by an appropriate level of debt, if Council can afford the loan service requirements.

The Committee noted it would be useful to see what the ratios would present with either historical or projected figures. This would assist the Committee to have meaningful discussion.

ACTION:

1. **Review the current treasury management policy in conjunction with the debt servicing ratio and incorporate the concept of intergenerational funding.**
2. **Use the proposed ratios as part of the preparation of the Annual Business Plan and Budget for 2015/16 as a test of their usefulness.**

Moved Mr Owens, Seconded Councillor Pfeiffer that:

1. **The Audit Committee accepts the ratios provided within the report but that further work be progressed regarding the target ranges (in particular for the Debt Service Coverage ratio).**
2. **Category 3 being an Operating Surplus ratio of 0% to 5%, is to be retained as an indicator.**

Carried

**6.2 Savings Strategy Discussion – Summary Report
Report Reference: AC161214R6.2**

The Committee noted the approach and provided the following comments:

- The previous Council set a rate rise of 4.1% for the 2014/15 financial year that required a budget saving of \$564,000. Savings of this nature were presented to Council with just over half being derived from the capital budget. Council requested that this money be reinvested into capital and the savings be found within operations with no impact on services.
- The likelihood of the introduction of economic regulation for local government was high. Implementing rate increases of CPI would create a sustainable future and set Marion as the sector leader in this space. This was a good discipline to consider into the future.

The following comments were provided to the Committee:

- The Council is focused on achieving efficiency savings which will enable it to be in the position to provide lower rate rises to the community. Budget officers are looking for areas where these might be found so savings can be passed onto the rate payer to reduce the financial burden on the community.
- Council's approach to budgeting is 'zero based' and this will be applied with appropriate robustness and rigour.

- Savings should be ongoing (ie. recurrent) wherever possible.

6.3 Review Recommendations Update (Core Assurance and Service Reviews) Report Reference: AC161214R6.3

The Committee noted progress achieved and that this program was critical for the savings targets of Council. It was noted that the tender for this contract will be released in the new year.

Part of Council's continuous improvement opportunities is to build an ongoing process of continuous review and improvement into operations to maintain and sustain savings and efficiencies into the future.

The Committee noted that the Project management review was to be presented to the Committee at this meeting. Two bodies of work have been completed, one by BDO and one by Thinc Projects. Work is progressing on combining these two pieces of work and bringing these as a combined report to the April 2015 Audit Committee meeting.

ACTION: Project Management Report to be presented to the April Audit Committee Meeting.

The Committee queried the Expense, Benefit and Entitlement Procedures review, asking whether this was a compliance or service review. It was noted that this was a compliance review, forming part of good governance practices associated with a change in Council. The new Council will review the Policy position within the next 6 months.

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

1. Note the progress achieved against Council's Core Assurance and Service Review program.

Carried

6.4 Core Assurance Health Check: Goods & Services Tax (GST) and Fringe Benefits Tax (FBT) (Deferred GC141014R6.8) Report Reference: AC161214R6.4

Overall Council performed well in this review with only minor areas recommended for improvement. The Committee queried and noted the following:

- If the Council was audited by the Taxation Department it would be well placed to respond to an audit
- The Use of Council's Asset Policy may require further work to manage risk associated with employees using Council equipment for personal use. It was noted that this had been significantly restricted in recent years and employees could not borrow any equipment that they did not have appropriate 'tickets' to operate. It was confirmed that no Council equipment is used for commercial gain.

6.5 Service Review Project Briefs Grant Management

Funding to the Community
Report Reference: AC161214R6.5

The Committee noted the two scopes for Grants (funding being received) and funding/sponsorship (funding being given out). It was noted that the reviews are different and will be conducted as two separate reviews. The Committee noted the scopes and requested that the following be addressed:

Grants:

- Who can apply for grants on behalf of Council?
- How the grant is controlled and approved for submission?
- Quality of the application.

Funding/Sponsorship

- Are the relevant guidelines adequate when funding and sponsorship is provided?
- Are there circumstances when small monetary amounts are provided without the need for a report back to Council to avoid red tape and bureaucracy?
- Does Council have Corporate Citizen responsibilities and how is this applied in this function?

The Committee requested that the due dates be reviewed.

6.6 Audit Committee Work Program & Meeting Schedule for 2015
Reference No: AC161214R6.6

The Committee noted that the Council would be focusing on the Business Plan and Budget throughout February and March 2015 and hence the first Audit Committee Meeting for 2015 was scheduled for April.

This was noted by the Committee and it was proposed that if required, a special meeting of the Audit Committee be held in this period to focus on the budget or alternatively, Audit Committee Members may be invited to attend relevant Elected Member Forums to support the Council in this process.

The Committee also queried the timing of the Annual accounts and if this could be reviewed by the Committee earlier than October. It was noted that the accounts need to be lodged by 30th November each year and management is progressing towards bringing this timing forward each year. The Committee requested if there would be any benefit in reviewing the unaudited statements in August and it was agreed this could be a good approach to adopt.

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

1. Notes the proposed work program for 2015 identified at Appendix 1 to the report.
2. If required, hold a special meeting of the Audit Committee in February 2015 to focus on budget preparations.
3. Adopts the following indicative schedule of meetings for 2014;
 - a) TUESDAY, 14 April 2015 (3.00 – 6.00 pm)
 - b) TUESDAY, 9 June 2015 (3.00 – 6.00 pm)
 - c) TUESDAY, 18 August 2015 (4.00 – 6.00 pm, followed by joint workshop with Council from 7.00 – 9.00 pm)
 - d) TUESDAY, 13 October 2015 (3.00 – 6.00 pm)
 - e) TUESDAY 15 December 2015 (3.00 – 6.00 pm)

7. CONFIDENTIAL ITEMS

Nil

8. ANY OTHER BUSINESS

The Committee thanked Ms Cathy Cooper for her services and contribution to the City of Marion Audit Committee for the past eight years. The Committee noted she was a strong supporter and valuable member.

The Committee noted that the recruitment process to replace Ms Cooper would commence in the new year with the intent to have a new independent member appointed by the April 2015 Audit Committee Meeting.

Mr Owens advised the committee that he would be absent for the 9 June 2015 meeting.

9. MEETING CLOSURE

The meeting was declared closed at 3.33 pm

10. NEXT MEETING

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

Time: 3.00 pm - 6.00 pm

Date: 14 April 2015

Venue: Chamber

.....
CHAIRPERSON

/ /