

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON 2 OCTOBER 2018**



PRESENT

Mr. Greg Connor (Chair), Ms Emma Hinchey and Councillor Telfer

In Attendance

Mr. Adrian Skull	Chief Executive Officer
Mr. Vincent Mifsud	General Manager Corporate Services
Ms. Abby Dickson	General Manager City Development
Ms Kate McKenzie	Manager Corporate Governance
Mr. Ray Barnwell	Manager Finance and Contracts
Mr. David Harman	Unit Manager Statutory Finance and Payroll
Ms. Karen Peake	Acting Unit Manager Risk
Ms. Cass Gannon	Performance and Innovation Leader
Ms. Penny Wood	Deloitte Touche Tomatsu
Mr. Justin Jamison	KMPG
Mr. James Rivett	KMPG

1. OPEN MEETING

The meeting commenced at 9.32 am . The Chair welcomed all those present to the meeting.

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 had a conflict of interest regarding any item of the agenda. No conflicts of interests were declared.

4. CONFIRMATION OF MINUTES

9.33 am Confirmation of the Minutes for the Finance and Audit Committee Meeting held 21 August 2018

Moved Councillor Telfer, Seconded Ms Hinchey that the minutes of the Finance and Audit Committee (the Committee) meeting held on 21 August 2018 are confirmed as a true and correct record of proceedings.

Carried Unanimously

5. BUSINESS ARISING

**9.34 am Business Arising Statement
Report Reference: FAC1181002R01**

The Committee noted the Business Arising Statement and the progress of actions. All items listed in the up-coming scheduled were listed on the agenda.

6. CONFIDENTIAL ITEM

Nil

7. REPORTS FOR DISCUSSION

9.35 am Elected Member Report Report Reference: FAC181002R02

Councillor Telfer indicated that Council has essentially completed its work for the term and the caretaker period has commenced.

The Committee noted the report and made some further enquiries regarding the Icerinks project. It was noted that this proposal was received by the Council via an unsolicited proposal and Council progressed with an Expression of Interest (EOI) to ensure fairness and equity. Through the EOI, three proposals were received and Icerinks have now been short listed and requested to present a full business case to Council early in 2019.

The Committee also queried whether the purchase of the property at Bakewell Crescent, Marino was part of a predetermined strategy and suggested that Council should have a strategy in place prior to the purchase of assets and be clear what the purpose of such an acquisition is.

9.43 am Annual Financial Statements for the year ended 30 June 2018 Report Reference FAC181002R03

Committee commenced the review of the financial statements by acknowledging the improvement of the reporting in the past few years including its format and layout. The Committee also noted the strong financial position of the Council.

The Manager Finance provided an overview of the report highlighting the following points:

- The accounts show the on-going strong financial performance of the Council reporting an Operating Surplus in 2017/18 of \$10.9m down on the \$11.7m reported last year but greater than the \$5.008m surplus forecast in the original adopted budget.
- The Auditors have completed the audit with no findings with regards to the financial statements and have indicated they expect to issue an unmodified audit opinion in relation to both the financial statements and the effectiveness of our internal controls. They have also provided some recommendations to strengthen the internal controls.
- Page 37 to 39 of the agenda includes an analytical review against prior year actuals and also against original adopted budget with commentary to explain the variations.
- A full comprehensive valuation has been completed in 2017/18 for both our Infrastructure Assets and Land and Buildings. Council's Infrastructure, Property, Plant and Equipment (IPP&E) decreased by \$3.1m or 0.3% compared to the previous year. Council has split the independent valuations into two parts with APV completing the Infrastructure valuations and JLL (recent acquirer of Maloney's Field Services) completing Land and Buildings valuation.
- The value of land has also decreased by \$8m which predominately relates the re-classification of land at the Marion Golf Course from residential to Hills facing.
- The operating surplus ratio is 12% which is 1% lower than the previous year, however it is still higher than the required target and the 5.8% forecast in the adopted budget.
- The net financial liabilities ratio is in the negative which shows Council's Financial Assets exceed its Financial Liabilities. This is based on substantial holding of cash and other financial assets allocated for unexpended grants and funding of major capital projects, including the multi-year Edwardstown Oval redevelopment currently under way.
- Council also received a cash distribution from its regional subsidiary, Southern Region Waste Resource Authority (SRWRA) of \$765k.

In addition to this, the Manager Finance provided an in-depth summary of the income, expenses, assets and liability variations highlighted on page 37 to 39 of the agenda. The Committee noted the summary provided and made the following points:

- That employee costs were down by approximately \$740k on original budget and this was due to vacancies (particular from the restructure from the previous financial year). It was noted that there were no retrenchment costs in the 17/18 financial year.
- Carryovers (excluding grants) reduced from \$3.2m to \$3m. It was noted that some works carryovers occurred very early in the new financial year. For example, a street sweeper valued at \$313k arrived on the 12th July 2018 and works on the Club Marion carpark (\$252k) were completed in the first week of July, delayed by two weeks due to inclement weather. The Committee commented that the carryovers are improving and this was the third year in a row that they had decreased.
- The Committee agreed that the organisation should be aiming for zero carryovers however there will always be circumstances where works are carried over due to circumstances beyond the control of the Council. The Committee suggested that information on carryovers should be provided to the new council as part of their induction and that the budget process should acknowledge the likelihood of carryovers and include a contingency for works straddling financial years.

ACTION: Information regarding carryovers be included within the Induction of the new Council.

Ms Penny Woods (Deloitte Touche Tohmatsu) provided an overview of their report noting that the scope of their work was completed in accordance with the Australian Auditing Standards, the *Local Government Act 1999* and the *Local Governance Financial management) Regulations 2011*.

The Committee noted the audit was complete with the only outstanding process being the exchange of management letters and the signing of the statements. Ms Woods confirmed that no findings were made with regards to the financial statements and that there were no significant deficiencies to disclose. They expect to issue an unmodified audit opinion.

It was noted that there was no change to accounting standards, however an interpretive change had occurred regarding residual values and many Councils are now componentising assets.

Ms Woods highlighted that the areas of focus within the audit were:

- Infrastructure, Property, Plant and Equipment,
- Rates Revenue and Grant Income, and
- Expenditure.

The Committee noted:

- The variation to the valuations and that some changes were based on asset condition from physical inspections. This may have occurred due to the change in valuers.
- All grant funding that must be recognized has been recognized in the financial statements.
- The internal control review included substantive testing on expenditure which confirmed the adequacy of the controls in place. There were no issues noted through this testing.
- Deloitte used their internal specialist to test the IPP&E valuation process.
- Deloitte tested the management override of journal entries and no issues were identified.

Ms Woods indicated that Deloitte Touche Tohmatsu were also engaged to test the internal controls. They have performed control assessment on a rotation basis for each of the six risk categories being assets, liabilities, expenses, revenue, strategic financial planning and external services. The Auditors did not detect any significant deficiencies in internal controls however five (5) findings for improvement were noted. These related to implementation of a policy for grants attraction, documenting the policy for issuing of grants to the community, creating an audit trail for the debtor master file, ensuring there is a formal process in place for management sign off on the Register of Allowance and Benefits and changes to the creditor master file are reviewed and supported with documented evidence.

The Committee requested that management progress the issue with the debtor master file with Civica and suggested that it is unreasonable that the system cannot track any change and provide an audit trail. The Committee noted that although there are other controls in place, this does impact as a potential fraud risk to the organisation.

It was noted that Management have met with the executive team of Civica and are actively reviewing this system for future needs / requirements.

The Committee noted that the finding on the Register of Allowances and Benefits has already been resolved.

The Committee noted the financial statements from both Council subsidiaries being SRWRA and Council Solutions. The Committee noted the positive operations of SRWRA and that it is more than just a landfill operation. The subsidiary is looking at better ways to continually improve the life of the business. The Committee also noted that it is estimated that Council Solutions has saved the City of Marion in the vicinity of \$900k. Concerns were raised that the Councils Solutions may have over complicated the structure for the subsidiary as it is now a \$1m business. It was noted that there are changes to improve the performance of the organisation occurring and there is currently an interim CEO in place.

In summary, the Committee noted the end of financial year accounts for 17/18 and made the following points:

- The financial statements presented are solid.
- The asset consumption ratio is lower than target indicating that in outer years of the Long Term Financial Plan there may be an additional funding requirement to maintain and/or replace assets. Council has focused on its major community facilities and it may be that additional work is required on the smaller facilities to increase this ratio.

ACTION: Could further information be provided through the business arising statement on the following:

- **How the aggregate thresholds have been determined for the different assets categories identified within Note 6.2 to the accounts on pages 49 and 50 of the agenda?**
- **In Note 11. Reconciliation to the Statement of Cash Flows, what was the cause of the unreversed prior year increases under Change in Net Current Assets (for Receivables and Trade and Other Payables) on page 67 of the agenda?**

Moved Ms Hinchey, Seconded Councillor Telfer that the Finance and Audit Committee:

1. Recommends to Council that the audited Annual Financial Statements for the year ended 30 June 2018, as included at Attachments 3-5, be adopted (noting changes within the report)
2. Notes Deloitte Touche Tohmatsu's management letter, as included at Attachment 6.

3. Notes the comparative analysis to prior year Audited Financial Statements and original adopted budget (Analytical Review), as included at Attachment 2.

Carried Unanimously

**11.18 am Independence of Council's Auditor
Report Reference FAC181002R04**

Moved Councillor Telfer, Seconded Ms Hinchey that the Finance and Audit Committee:

1. Notes the statement provided by Council's Auditor attesting to their independence in accordance with the Local Government (Financial Management) Regulations 2011 for the 2017/18 financial year.
2. Notes 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 2017/18 financial year.
3. Endorses 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 2017/18 financial year.

Carried Unanimously

**11.18 am Independence of Council's Auditor
Report Reference FAC181002R04**

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2. Notes the statement provided by Council's Auditor attesting to their independence in accordance with the Local Government (Financial Management) Regulations 2011 for the 2017/18 financial year.
3. Notes 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 2017/18 financial year.
4. Endorses 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 2017/18 financial year.

Carried Unanimously

**11.19am Meeting with the External Auditors in Confidence (without management present)
Report Reference FAC180818R07**

Moved Councillor Telfer, Seconded Ms Hinchey that the Finance and Audit Committee:

1. Pursuant to Section 90(2) and (3)(g) of the *Local Government Act 1999*, orders that all persons present, be excluded from the meeting, with the exception of Penny Wood from Deloitte Touche Tohmatsu, as the Finance and Audit Committee meets with Council's External Auditors, on the basis that the Finance and 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.

Carried Unanimously

**11.32 am Internal Audit Program 2018/19 Scoping Documents
Report Reference FAC181002R11**

Mr Justin Jamison and James Rivett from KPMG entered the meeting. Mr Jamison provided an overview of both scope documents as follows:

Customer Experience

The scope for this audit is to assess the risk and controls associated with the whole organisation's customer experience. The Service Review previously completed in 2017/18 focused on the Customer Services team only. Key focus areas will be policy and procedure, roles and responsibilities, service requests and complaints and benchmarking against ISO 10002 Customer Satisfaction and Complaint Handling. The Committee endorsed the scope and requested the auditors to ensure the work completed in the service review was used to inform the audit but not repeated.

Tendering

The scope for this audit is to assess how tender practices are applied through the City of Marion. The audit will test other procurements to see if a tender should have been used but wasn't and the reasons as to why.

The Committee noted the scope and suggested that it may be useful to speak with both successful and unsuccessful tenderers to understand their experience.

The Committee noted that Mr Jarred Lawrence has resigned from KPMG and the Committee queried what the staffing arrangements will be moving forward. Mr Jamison advised that this is currently being worked through and this can be presented to the December meeting.

ACTION – that KPMG provide further information on the staff structure at the December 2018 meeting.

11.38 am Mr Jamison and Rivett from KPMG left the meeting

**11.38am Corporate Reporting Policy and Framework
Report Reference FAC181002R05**

The Committee noted that further work was required on the Policy and that the final version had not been presented. The Committee agreed to represent this report in December. The Committee also requested that the report include how this framework will benefit the Committee and organisation, what is its key theme and what it will look like when in operation? The Committee noted that the background in the Framework could also be amended and that greater transparency and clarity was required in regards to responsibilities and accountability.

**11.40am Finance and Audit Committee Annual Report to Council 2017/18
Report Reference FAC181002R06**

The Committee thanked the staff for the report and made no amendments.

Moved Council Telfer, Seconded Ms Hinchey that the Finance and Audit Committee:

1. Endorses the Annual Report to Council for 2017/18 provided at Appendix 1 to this report and recommends it be presented to the General Council meeting on 9 October 2018.

Carried Unanimously

**11.41am Insurance and Claims Management 2017-18 Annual Report
Report Reference FAC181002R08**

The Acting Unit Manager Risk provided an overview of the report noting the three categories of motor vehicle, property and public liability / professional indemnity.

The Committee noted the report and made the following comments:

- Incident reporting is a good indicator of what is happening. Ensure that the reduced incident reporting does not diminish the data required to manage the business. Management noted that:
- ELT have introduced quarterly reporting on the claims statistics. Employees with repeat issues are monitored and performance is discussed.
- Theft of copper pipe continues to be an issue. Management are progressing with an audit of sites to reduce the risk.
- The event cancellation policy was enacted in relation to the 'Concert at the Cove' event due to adverse weather conditions.

**11.53am Service Review Program and Recommendations – Progress Update
Report Reference FAC181002R09**

The Performance and Innovation Leader provided an overview of the report and commented that the program is on track. It was noted that the Living Kurna Cultural Centre recommendations are off track which is beyond the control of Council. Council is currently waiting for a response from Kurna which is impacting on the delay of these recommendations. The current risk is around the recommended future management model not progressing, meaning that Council would need to rethink its strategy in this area.

The Committee also queried the implementation of the Asset Management review. It was noted that some of the original due dates were ambitious. The team is currently progressing with data cleansing prior to a new system being implemented. It was noted that a staff member from the City of Charles Sturt has been seconded to assist with the recommendations. It was noted that the Assets Team are feeling positive but the implementation will take longer than originally anticipated.

**11.57am Results of the Bi-Annual Performance and Effectiveness Review of the
Finance and Audit Committee
Report Reference FAC181002R10**

The Committee noted the report and the good results. The Committee agreed that further work on the size of the agenda, report quality and a review of the risk appetite would be beneficial in 2019. The Committee noted that the Risk Management Framework is due for

review in 2019. The Committee agreed that a workshop with Council and the Committee in August 2019 on risk tolerance would be a positive step.

8. REPORTS FOR NOTING

12.02pm Internal Audit Program – Implementation of Recommendations Report Reference FAC181002R12

The Committee noted the implementation of recommendations for the Capital Works internal audit highlighting that the implementation of the Project Management Framework had still not progressed. It was noted that the Project Management Software was being implemented but the documentation was not yet completed. The Committee cautioned that there was a risk that Council would simply implement the software without the strategy of what the business requires. It was noted that this work has been progressing concurrently and a further report could be brought to the next meeting in December 2018.

ACTION – a report on the progress of the project management framework be presented to the December 2018 meeting.

The Committee also requested that a summary of the recommendations be included within the comments to ensure that the implementation of recommendations reflect the original finding.

12.11pm Debtors Report Report Reference FAC181002R13

The Committee noted the report and noted that the Rate debtors had increased. The Committee queried what could be progressed to reduce this number.

It was noted that a report should be brought to Council with some further profiling of those long outstanding rates debtors that have arrears of greater than three years, which currently totals \$603k. It was noted that Council should consider the sale of property to recover longstanding rates debts (particular those that are commercial).

The Committee recommended that some focus is required to reduce these figures.

ACTION: that Administration investigate the sale of commercial properties with rates outstanding and that further analysis be completed to understand the nature of these debtors to Council.

12.16pm Investment Performance 2017/18 Report Reference FAC181002R14

The Committee noted the report and the favourable results reported. The Committee made the following points:

- The Council earned \$1.1m of interest on its investments in 2017/18
- The performance is above the Reserve Bank benchmark.
- The LGFA is guaranteed by the State Government.
- The Council do test the market ensuring competitive rates are received from the LGFA.

9. WORKSHOP / PRESENTATION ITEMS

Nil

10. ANY OTHER BUSINESS

The Committee thanked Councillor Telfer for her work, diligence and commitment to the Committee and wished her well in the up-coming elections.

11. MEETING CLOSURE

The meeting was declared closed at 12.23 pm

12. NEXT MEETING

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

Time: 9.30am

Date: 11 December 2018

Venue: Council Chamber, Administration Building

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CHAIRPERSON

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