

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING  
HELD AT THE ADMINISTRATION CENTRE  
245 STURT ROAD, STURT  
ON TUESDAY 4 OCTOBER 2016**



**PRESENT**

Mr Greg Connor, Ms Kathryn Presser, Mr Lew Owens, Councillor Raelene Telfer and Councillor Tim Gard.

**In Attendance**

Mr Adrian Skull	Chief Executive Officer
Mr Vincent Mifsud	General Manager Corporate Services
Ms Abby Dickson	General Manager City Development
Mr Mat Allen	Acting General Manager, Operations
Ms Kate McKenzie	Manager Corporate Governance
Mr Ray Barnwell	Manager Finance
Ms Sherie Walzac	Unit Manager Risk
Ms Deborah Horton	Unit Manager Performance & Improvement
Ms Penny Wood	Deloitte (via telephone for items 7.2 and 7.3)
Mr Jason Liu	Deloitte (for items 7.2 and 7.3)
Mr Justin Jamieson	KPMG (for item 7.12)
Mr James Rivett	KPMG (for item 7.12)

**1. OPEN MEETING**

The meeting commenced at 2.04 pm. 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 wished to disclose an interest in relation to any item being considered at the meeting. No interests were disclosed.

**4. CONFIRMATION OF MINUTES**

**4.1 2.04 pm Confirmation of Minutes for the Finance and Audit Committee held 16 August 2016**

**Report Reference: FAC041016R4.1**

**Moved Councillor Gard, Seconded Ms Presser** that the minutes of the Finance and Audit Committee meeting held on 16 August 2016 is confirmed as a true and correct record of proceedings.

Carried

## **5. BUSINESS ARISING**

### **5.1 2.05 pm Review of the Business Arising from previous meetings of the Finance and Audit Committee**

**Report Reference: FAC041016R5.1**

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

The schedule of meetings was also reviewed noting that the chair was unavailable for the 6<sup>th</sup> December meeting. The Committee agreed to change the meeting date to Thursday, 15<sup>th</sup> December 2016 from 3pm to 6pm.

**Moved Councillor Gard, Seconded Ms Presser**, that the Finance and Audit Committee meeting scheduled for of 6 December 2016 be changed to Thursday, 15<sup>th</sup> December from 3 – 6 pm.

## **6. ELECTED MEMBER REPORT**

### **6.1 2.07 pm Elected Member's Report**

**Report Reference: FAC041016R6.1**

The report was taken as read and noted by the Committee.

Councillor Telfer highlighted that Council has been meeting regularly to progress priorities, including implementation of key infrastructure projects.

The Streetscape strategy and prioritisation was discussed and Council Members raised that the two demonstration projects were inconsistent with the criteria. It was noted that the two demonstration projects were within the existing capital works program and hence it created efficiency and opportunity to do those works. It seems that the criteria lacked connection with the existing capital work program.

The Committee noted that the Elected Member report states that Council had approved the two streets as demonstration projects but acknowledged that the criteria could have been clearer. The Committee recognised it is good management to undertake the demonstration project whilst Council is already undertaking works as this creates efficiency.

The Committee also queried the progress of the BMX project, noting that this will progress to a prudential management Section 48 report that will address the financial impact, risks and governance models. It was noted a detailed design has not yet been agreed.

## **7. REPORTS**

### **Corporate & Financial Management**

### **7.1 2.17 pm Finance and Audit Committee Annual Report to Council 2015/16**

**Reference No: FAC041016R7.1**

The Committee noted the report and queried the operating surplus of \$10m disclosed within the section on "External Audit". It was highlighted that this related to the previous financial year (2014/15 not 2015/16). It was also noted that the \$10m operating surplus in 2014/15 was before capital expenditure and a number of long term strategies have now been considered and implemented in relation to Council's infrastructure assets, including whole of life costs.

The Committee provided the following feedback to be included within the annual report to Council:

- Under “Key discussion points for Council to Note”, within the third point, could a further sentence be added that although the financial position of Council is solid, the financial management is a conservative approach and Council should consider further review of its rating strategy to ensure the best outcomes for its community.
- In the section regarding “Internal Audit & Service Reviews”, within the third point, can a sentence be added that KPMG were appointed after a thorough tender process that occurred in the previous financial year.
- Within the “Future Works Program Proposal” of the Committee, can a sentence be added regarding further work on the financial management of Council’s assets. This should include the governance arrangements and process regarding the use of the Asset Sustainability Reserve.

The Committee endorsed the Annual Report to Council for 2015/16 with the inclusion of the noted comments.

The chairman sought leave of the meeting to alter the order of the agenda as both the external auditors and internal auditors would not be attending until later in the meeting.

#### **7.4 2.32pm Debtors Report** **Reference No: FAC041016R7.4**

The Committee noted the report and congratulated the organisation on the reduction of debt from its Sundry Debtors. It was noted that the Property Team and other relevant departments have been working closely with community groups to reduce the debt which has had a positive result on the total Sundry Debtors balance. It was highlighted that the smaller community groups can sometimes find themselves in financial difficulties and Council can assist them with the management of their debt. It was noted that Council is currently undertaking a review of its Leasing and Licensing Policy.

The Committee queried the Rates Debtors and if there had been any issues regarding the most recent property valuations. It was noted that only a handful of issues had been raised and these were being appropriately managed.

It was noted on page 197 of the agenda that the current rates in arrears figure is currently \$710k which equates to 1% of total annual rates revenue. It was noted that in comparison to other Councils, this is very low. A number of the ratepayers with rates in arrears are on agreed payment plans with the Council.

#### **ACTION**

**The Committee asked for some further information which will be circulated via email:**

- **How many of the sundry debtors are more than 3 years old?**
- **How does the \$710k rates in arrears compare with previous years?**
- **How many debtors does Council have and of these how many are in arrears?**

#### **7.6 2.43pm Investment Performance 2015/16** **Reference No: FAC0410167.6**

The Committee again congratulated the organisation for its achievements within the investment performance. The Committee noted the report and suggested it would be useful to include some further benchmarking, particularly for commercial borrowings.

The Committee queried how our investment performance compares with state government and it was highlighted that the state government has their own bank, the South Australian Government Financing authority, (SAFA) which operates with less restrictions than the Local Government Finance Authority (LGFA).

It was noted that the LGFA provides Council with a bonus at the end of the financial year which is based on a combination of Council's investment and borrowing activity for the prior year. It is also noted that the LGFA is fully guaranteed by the State Government.

The Committee highlighted that if Council was to consider alternative investment options than the LGFA, the cost of managing Council's portfolio may be in the vicinity of a minimum of approximately \$30k pa, depending on the approach (either a part time internal resource or through a broker).

#### **7.7 2.50 pm Treasury Management and Reserve Funds Policy** **Reference No: FAC041016R7.7**

The Committee noted the report and the further rigour that had been included within the Treasury Management Policy.

It was suggested that it may be useful to provide further clarity in regards to what financial institutions Council could invest with and that this could be by way of detailing a minimum suitable credit rating that would be considered acceptable. This could potentially include Australian financial institutions beyond Australia's big 4 banks. The Committee suggested that this would be reasonable to consider. The Committee also suggested that the reference in the policy to Australian dollars be removed.

The Committee suggested that the paragraph in the policy stating "Investment of surplus funds outside of the above investment choices must be reported to Council for approval" should be removed as it seems to be a 'catch all' and isn't appropriate for a Treasury Management policy.

The Committee noted that the Reserve Funds Policy is being prepared for the December 2016 FAC meeting and they agreed with the inclusion of the five dot points listed on page 206 of the agenda.

The Committee agreed that further clarity is required regarding the Asset Sustainability Reserve (ASR) and its use. It was noted in the Treasury Management Policy that Council will "*not retain and quarantine money for particular future purposes unless required by legislation or contractual agreement with other parties*". Clarity is required regarding the purpose of this Reserve to ensure it doesn't conflict with this section in the Treasury Management Policy. The Committee also queried the existing parameters relating to the Community Facilities Partnership Program (CFPP) component of the ASR and that this requires further review.

The Committee noted that over time, some accounting reserves have been consolidated into the ASR.

The Committee also sought further clarity in regards to the Open Space Reserve and its purpose. It was highlighted to the Committee that the Open Space Reserve is required by legislation (Development Act) predominantly for quarantining open space

contributions provided by developers and that these funds needed to be applied to the development of open space facilities.

## **Risk Management**

### **7.8 3.06 pm Fraud and Corruption Management Framework Reference No: FAC041016R7.8**

The Unit Manager Risk provided an overview of the report noting that Council had previously adopted the policy. The framework has now been finalised to underpin the policy. It provides direction at a high level regarding how fraud and corruption will be managed and monitored across the organisation.

The Committee thanked staff for the fulsome report and suggested the following matters be undertaken prior to the framework being formally endorsed:

- Ensure that the policy and framework has consistent policy governance regarding version control, dates adopted by council, etc.
- Review the relationship with the framework and the requirements of ICAC, to ensure compliance with the ICAC legislation. There may need to be two processes to apply – those investigated internally and those investigated by ICAC.
- Incorporate the receipt of gifts, benefits and hospitality within the Work Area Report checklist (Appendix 4).
- Include this in the Committees Annual Report as part of the work program for next year.
- Amend page 232 of the agenda to reflect the Procurement and Contract Management Policy that was endorsed at the Council Meeting of 27 September 2016.

The Committee noted that the General Manager Corporate Services provides an annual executive assurance sign off as part of the external audit regarding internal controls and fraud.

The Committee queried the organisation's structure with Corporate Governance and Finance reporting to the same General Manager as an adequate separation of duties. It was noted that this structure is consistent with other similar organisations as the two functions are similar. It was also noted that within the Framework, there are two Responsible Officers (Manager Corporate Governance and Manager Human Resources). These positions are appointed by the Chief Executive Officer and provide an appropriate segregation of duties and reporting to the CEO.

3.15 pm Ms Kathryn Presser left the meeting

3.17 pm Ms Kathryn Presser returned to the meeting.

### **7.9 3.21 pm Business Continuity Plan Reference No: FAC041016R7.9**

The Business Continuity Plan (BCP) was noted by the Committee and they queried if it was enacted during the recent storm events and resultant State-wide power blackout. The CEO confirmed that it was enacted during the storm event on Wednesday, 28 September 2016 when power was lost to most of the state. The CEO indicated that he was very proud of the teams involved and in general things went very well considering the circumstances. The

lessons were around the communication network as emails and the land lines ceased operating and the mobile network had limited capacity. It was noted that the Administration building does not have a backup generator. This will be further investigated as a mitigation strategy in the upcoming months.

The Committee noted that although there is no formal community emergency response plan in place yet, various actions were enacted with minor flooding occurring at some locations. It was noted that the Sturt River through the Marion Caravan Park was closely monitored and Glandore Community Centre was advised that it may be used as a relief centre if the Patawalonga river burst its banks and residents in that area were required to evacuate.

The Committee noted that a desk top exercise will be held for training purposes in the upcoming months. The Committee suggested that the BCP could consider a further category of loss of key staff and identify what will occur in the event that key staff are not available for decisions making purposes. It was noted that individual recovery strategies identified critical roles and functions but agreed that the BCP could include further information around who has the authority for decision making in the absence of executive and senior management.

#### **7.10 3.35 pm Local Government Association Mutual Liability Scheme Risk Review Reference No: FAC041016R7.10**

The Unit Manager Risk highlighted to the Committee that the methodology used for the review had significantly changed this year and staff had been considered in their responses, noting that a number of risk categories are progressing through an implementation phase. It is hopeful that scores will progress next year as the systems would have matured past implementation and into full operation.

The Committee noted the report and the bonus of \$45,249 provided by the Local Government Association Mutual Liability Scheme (LGA MLS). The claims history was also considered noting that two professional indemnity claims are still impacting on the Councils claims loss ratio.

The Committee noted that this risk related specifically to public liability exposures and that WHS risks are monitored through the LGA Workers Compensation Scheme, rather than the LGA MLS.

The Committee felt that the proposed actions were adequate and these should be monitored to ensure progress before next year's review.

3.44 pm the chair adjourned the meeting for 10 minutes

3.54 pm meeting resumed.

### **Service Reviews and Internal Audit**

#### **7.11 3.55 pm Organisational Service Review Update and Stage Two Scopes for 2016/17 Reference No: FAC041016R7.11**

The Committee noted the progress of the Service Review Program and that Council had adopted a program for the 2016/17 financial year. The program listed 13 reviews to be completed. The Committee suggested that implementation of recommendations may become an issue. If this occurs, further work and re-evaluation will need to occur to determine what is a manageable for the organisation.

The CEO advised the Committee that a pilot project is currently in progress which is focused on organisation resources and costs. This information will feed into the service reviews to assist management identify efficiencies. This work is being undertaken by Erica Comrie from Council Solutions and it is anticipated that the same body of work will occur at other Councils who are a part of Council Solutions.

It was noted that some service reviews would progress through other Committees of Council. For example, the Recruitment Service Review may progress to the People and Culture Committee. The outcomes of the reviews and the monitoring of the program would remain within the scope of the Finance and Audit Committee Terms of Reference.

The Committee provided feedback on each of the scope documents as listed below:

- Recruitment – the review could consider the pre-recruitment aspect in conjunction with Councils Vacancy Management Policy. It could also consider how roles are advertised. The internal stakeholders should include a selection of employees recruited within the last six months. The length of recruitment (time taken to recruit) should also be considered.
- Marion Outdoor Swimming Centre Review – It was noted that Council is working separately on the infrastructure issues and this review is focused on revenue and cost efficiency. Keeping the pool financial viable is the focus of the review, not the strategic directions of the pool. It was noted that some analysis regarding ‘the point of difference’ for this pool may be required as part of the review to identify specific marketing strategies. It was noted that sponsorship could be explored as part of this review and that it may be useful to get the views of customers. This review should assist the Council understand the ‘product’ it is offering to its community.
- Parking and Regulation – this review should define what a ‘good day’ is for the Community Safety Inspectors. For example, issuing no expiations or a lot of expiations? The Committee also suggested to confirm who are the experts in this field outside of Australia and seek their input. This can be through a desk top review.
- Governance – the Committee suggested that this review should be linked to the KPMG Corporate Reporting Review.
- Management of Recycling Depot – it will be important to seek the views of organisations that do this well – for example Southern Region Waste Authority (SRWA). It was noted that this facility is not for public use and only the Council. It was suggested that this could be made clearer within the scope.
- Stores – it was noted that Council holds approximately \$150k in stock and opportunities for improvement may exist around process for holding materials.
- Commonwealth Home Support Program – it was noted that the Neighbourhood centres were out of scope for this review.
- Drainage – clarification was sought regarding Councils role in stormwater management and it was noted that the City of Marion has 4 catchments within the City. It was highlighted that a drainage matrix is used to prioritise works and allocate resources.

## **7.2 4.33 pm Independence of Council's Auditor for the Year Ending 30 June 2016**

**Reference No: FAC041016R7.2**

Ms Penny Wood entered the meeting (via telephone) and Mr Jason Liu entered the meeting.

The Committee noted the statement provided by Council's Auditor attesting to their independence in accordance with the Local Government (Financial Management) Regulations 2011 for the 2015/16 financial year.

The CEO and the Chairperson of the Committee both indicated that they are willing to sign the statement that Council's external auditor (Deloitte Touche Tohmatsu) maintained their independence in accordance with the Local Government (Financial Management) Regulations 2011 for the 2015/16 financial year.

The statement was signed during the conduct of the meeting.

### **7.3 4.36 pm Audited Annual Financial Statements for the year ending 30 June 2016 Reference No: FAC041016R7.3**

Ms Wood provided an overview of the report. It was highlighted that Council had received an unqualified Audit report and the key items for Council to consider included:

- \$9.8m operating surplus with further detail provided within the analytical review on page 47 of the agenda. It was noted that the primary reason for the decrease is due to increase in depreciation expenditure resulting from a combination of the new cove Civic Centre and City Services buildings, in conjunction with change in the treatment of residual value of assets required by the revised accounting standards
- \$10.451m of Carryovers & Unexpended Grants which demonstrates a reduction from last year's total of \$15.156m. It was noted that the carryovers fit into four categories of capital, grants, new initiatives and operating, as well as retimed capital works. The Committee noted that KPMG (Internal Auditors) had completed a body of work on the capital carryovers and this resulted in a decrease from approximately \$7m down to \$3.5m.

The Committee queried a number of items as follows:

- The accounts reflect overspend and understand in various items with the overall result being positive. Further commentary could be provided to assist with understanding as to why these movements have occurred.
- The graph on page 35 reflects Council's total equity (ie. net asset) position and demonstrates a steady increase from 2007/08.
- The Statement of Comprehensive Income (Page 52) demonstrates a change in Revaluations Surplus in 2014/15 from \$3.5m to -\$4.5m in 2015/16. This specifically relates to a change in the Accounting Standard relating to depreciation, the removal of asset residual values and the compartmentation of assets.
- The Total Comprehensive Income figure on page 53 has reduced from \$23.454m in 2014/15 to \$6.345m in the current year. The Manager Finance advised that this was predominantly due to a significant decrease in "Physical resources received free of charge" (\$7.6m) and the "Changes in Revaluation Surplus" (\$8.1m) as discussed above. The large decrease regarding physical resources received free of charge, which has dropped from \$8.2m to \$650k was predominantly due to capital developments in the previous year relating to roads and retaining walls along Patpa Drive being recorded in the Accounts.
- It was noted that there had been movements in "Other Reserves" of \$2.5m as noted in the Statement of Financial Position that had occurred pursuant to Council resolution in accordance with Council's Reserve Funds Policy.



- The collection and payment of the natural Resources Management levy noted on pages 63 and 66 were not the same. It was agreed that the explanation for this would be provided to the FAC separately via an email response.

#### Internal Controls

It was noted that 117 internal controls were tested with 111 being assessed as operating effectively. Of the six internal controls identified as having improvement opportunities to further strengthen Council's controls, with all of these being categorised as 'Low' under the risk matrix.

In addition, as outlined in their Management Letter Deloitte are satisfied that 5 of the 8 prior year Internal Financial Control audit findings have now been fully implemented, with one finding in process of implementation, and the remaining two findings acknowledged as acceptable given the low level of risk.

The Committee noted that two management letters are completed by the External Auditors as there are two separate audits, one being for the Annual Accounts and the other for the Internal Controls.

The audited accounts for the Southern Region Waste Resources Authority (SRWRA) and Council Solutions were both noted. It was noted that SRWRA had a strong financial position and its forecast future remediation liabilities are fully funded.

**Moved Mr Owens, Seconded Ms Presser** that the Finance and Audit Committee:

1. Recommends to Council that the audited Annual Financial Statements for the year ended 30 June 2016, as attached at Appendices 3-5, be adopted.
2. Notes Deloitte's management letter as attached at Appendix 6.
3. Notes the comparative analysis to prior year Audited Financial Statements (analytical Review), as attached at Appendix 2.

**CARRIED**

5.13 pm Ms Kathryn Presser left the meeting

5.16 pm Ms Kathryn Presser returned to the meeting.

#### **7.5 5.16 pm Meeting with External Auditor in Confidence** **Reference No: FAC041016R7.5**

**Moved Mr Owens, Seconded Councillor Telfer** that the Finance and 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) and Mr Jason Liu (Deloitte) be excluded from the meeting as the Finance and Audit Committee meets with Councils external auditor to discuss the end of financial year audit, 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.

#### **5.17 pm the meeting went into confidence**

The independent and elected members of the Finance and Audit Committee met in Camera with the External Auditors. The Auditors indicated that they were most impressed with the support and engagement provided by the Administration. They have not experienced any issues in terms of the timeliness and quality of information provided. There were a number of recommendations from the previous year's audit which needed some attention, but they were of a minor nature. It was pleasing to note there were no "uncorrected misstatements nor "uncorrected disclosure deficiencies", and internal controls are in a sound state, and that an unqualified opinion would be provided to Council.

#### **5.24 pm the meeting came out of confidence.**

#### **7.12 5.25 pm Internal Audit Program Status Report Reference No: FAC041016R7.12**

Mr Justin Jamieson and Mr James Rivett from KPMG entered the meeting.

The Committee noted the monitoring report sought clarity regarding the implementation of the recommendations from the Capital Works review. It was noted that some recommendations were at risk of not being implemented within agreed due dates. Further detail will be provided to the Committee in December 2016.

The Committee discussed each of the scopes as follows:

Cyber Security – the review will undertake a maturity assessment of the Council's risk exposure to cyber-attack and confirm what has been done to ensure that the environment is suitable to deal with the risks. It was noted that penetration testing was out of scope for this review.

#### **5.31 pm Councillor Telfer left the meeting and did not return**

Corporate Reporting – the review will focus on reviewing the information and analysis provided to Council and Executive for decision making. It will also look at how it is presented and the format to ensure it meets the end user's needs. It was noted that this needs to be connected to the Governance Service Review.

Accounts Receivable – the review will focus on receiving and receipting of monies, aged debtors process, mater file maintenance, monthly reconciliation, management of overdue rates and the collection of rates

#### **8. CONFIDENTIAL ITEMS**

Nil

#### **9. ANY OTHER BUSINESS**

Nil

**10. MEETING CLOSURE**

The meeting was declared closed at 5.42 pm

**11. NEXT MEETING**

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

**Time: 3.00 pm – 6.00 pm**

**Date: Thursday, 15 December 2016**

**Venue: Council Chamber, Administration Building**

.....  
**CHAIRPERSON**

/       /