

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON 12 DECEMBER 2018**



PRESENT

Mr. Greg Connor (Chair), Mrs Emma Hinchey, Ms Natalie Johnston, Councillor Clancy and Councillor Gard

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 Greg Salmon	Manager, City Activation (item F01)
Ms. Carla Zub	Project Manager Strategic Projects (item F01)
Ms Fiona Harvey	Manager Innovation and Strategy (item R04,)
Ms. Cass Gannon	Performance and Innovation Leader (item R04)
Mr. John Deally	Manager, ICT (R06)
Ms Sherie Walczak	Unit Manager Risk (R08)
Mr Justin Jamison	KPMG
Mr Eric Beere	KPMG
Ms Heather Martens	KPMG

1. OPEN MEETING

The meeting commenced at 9.33am . The Chair welcomed all those present to the meeting, noting that Councillor's Clancy and Gard will be the Elected Member representatives on the Committee for the next 12 months.

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.

Councillor Clancy declared that her sister is the Labour candidate for Boothby which may be a perceived conflict of interest if the Committee discussed any federal funding opportunities within that electorate.

4. CONFIRMATION OF MINUTES

9.35 am Confirmation of the Minutes for the Finance and Audit Committee Meeting held 2 October 2018

Moved Mrs Hinchey, Seconded Councillor Clancy the minutes of the Finance and Audit Committee (the Committee) meeting held on 2 October 2018 are confirmed as a true and correct record of proceedings.

Carried Unanimously

5. BUSINESS ARISING

9.36am Business Arising Statement Report Reference: FAC181211R01

The Committee noted the report and that some actions are starting to lag. It was noted that this was due to the loss of key staff with two (2) resignations at the Senior Leadership Level and two (2) senior staff. The Committee queried the CEO if he was concerned about staff turnover. The CEO indicated that he wasn't concerned with turnover however he was concerned with recruitment and making sure the right people are placed into the vacant positions.

The Manager Finance commented on item 7 in the business arising – Trade and Other Payables noting that they were high at the end of the of 2016/17 financial year due to significant catch-up works on the road reseal program. However, it was confirmed that there was no lag or delay in payments to suppliers who continued to be paid in a timely manner.

6. CONFIDENTIAL ITEM

9.47 am Expression of Interest – 262 Sturt Road, Marion – Outcome of Business Case Process

Moved Councillor Gard, Seconded Ms Johnson that:

1. Pursuant to Section 90(2) and (3)(b) of the *Local Government Act 1999*, the Council orders that all persons present, with the exception of the following persons: Councillor Telfer, Adrian Skull, Chief Executive Officer; Vincent Mifsud, General Manager Corporate Services, Abby Dickson, General Manager City Development; Tony Lines, General Manager City Services; Kate McKenzie, Manager Corporate Governance, Carla Zub, Project Manager Strategic Projects and Greg Salmon, Manager City Activation be excluded from the meeting as the Council receives and considers information relating to the report *Expression of Interest - 262 Sturt Road - Progress Report and Next Stage* upon the basis that it 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 on the grounds that the report contains information of a commercial nature and would on balance, be contrary to the public interest.

Carried Unanimously

9.49 am the Committee moved into confidence

Moved Councillor Gard, Seconded Mrs Hinchey that the Finance and Audit Committee:

1. In accordance with section 91(7) and (9) of the *Local Government Act 1999* the Council orders that this report, Expression of Interest – 262 Sturt Road – Outline of Business Case Process, any appendices to this report and the minutes arising having been considered in confidence pursuant to Section 90(2) and (3)(b) of the Act, except when required to effect or comply with Council's resolutions regarding this matter, be kept confidential and not available for public inspection, for a period of 12 months from the date of this matter, This confidential order will be reviewed at the General Council Meeting in December 2019.

Carried Unanimously

7. REPORTS FOR DISCUSSION

10.21am Terms of Reference and Overview of Skills Report Reference: FAC181211R02

The Committee provided an overview of their skills and experience as it related to the Committee.

Action: The Committee requested that a Skills Matrix be developed for the Committee.

10.16am Elected Members Report Report Reference FAC181211R03

The Committee noted the report and highlighted that the end of financial year statements were considered and adopted at the Council meeting of 9th October.

Councillor Gard provided an overview of the Elected Member report highlighting the following points:

- The National Resources Management Reforms will have an impact on Council, however, Council has embraced the reforms well. Council has written a comprehensive response noting that the City of Marion wanted to be recognised as a metropolitan council rather than a hills council. It was also noted that Council did not want to be responsible for collecting the NRM levy. Various motions have been submitted to the Local Government Association (LGA) Annual General Meeting about this issue and the LGA has been unable to make progress with the State Government.
- Waste Management has been an issue and Council is seeking the best value option for the ratepayer. The City of Marion joined with the Cities of Charles Sturt, Port Adelaide Enfield and Adelaide City Council (the Participating Councils) to progress a collaborative approach to the procurement of Waste Management Services, led by Council Solutions. It was noted that Onkaparinga have their own fleet and manage their own waste and that they could provide a shared service and tender for the Waste Management Services procurement being led by Council Solutions.

The Committee noted the first budget review was considered by Council at its meeting of 27 November 2018 and suggested that Council needs to ensure that it has good processes in place to ensure it does not overspend. Council can easily exceed the budget with ad-hoc Council resolutions if an appropriate discipline is not applied to spending.

It was further noted that if there are savings identified within the quarterly budget review, that it should be reflected if the funds have been redirected for other purposes.

10.37 am Service Review Program and Recommendations – Progress Update Report Reference FAC181211R04

The Performance and Innovation Leader provided an overview of the report noting that the program is on track and the team are supporting the implementation of 21 existing open actions from previously completed service reviews. It was noted that of these 21 recommendations five (5) are complete and 16 are in progress.

Three (3) reviews are yet to commence which is mathematically correct, however the Committee queried to how large the remaining reviews are. It was noted that the ICT review was one of these, however the team was well positioned to complete this work within 2018/19 as planned.

The Committee queried if quality assurance and the service reviews were linked? The General Manager City Services noted that the whole process of a service review looks at quality and what is being delivered. It reviews the process end to end.

The Committee noted the report.

10.44 am Ombudsman Report 2017/18
Report Reference FAC1181211R05

The Manager Corporate Governance provided an overview of the reporting noting that the Ombudsman had not yet completed its Annual Report for 2017/18, however the Council receives a report every six (6) months regarding any complaint the Ombudsman has received about the City of Marion. In 2017/18, a total of 26 complaints were received. Each of these complaints have been reviewed to ensure that they have been closed out appropriately.

The Committee suggested that Council may not have enough information available to the community regarding how to progress complaints. It was noted that KPMG, via the Internal Audit Program were reviewing 'customer experience' and complaint management was included within the scope. This report was scheduled to come to the Committee in February 2019.

The Committee noted the report.

10.50 am Service Review – Scope – Corporate Information and Communication Technology
Report Reference FAC181211R06

The Performance and Innovation Leader provided an overview of the scope noting that this review will focus on Infrastructure Service Delivery, Information Cyber Security and Audit, as well as Business Applications and Project Support for the ICT Team. The Committee highlighted that this review needs to be holistic and that this should include an assessment regarding if the service (whole or part) should be managed off site. The Committee suggested that the review should address if the existing infrastructure is appropriate, how well the management of ICT services is delivered across the organisation and how does this compare with other councils and options. It should also reflect any potential gaps in services. The Committee also recommended that this review requires a level of independence to ensure there is no bias. It was noted that the review would be completed by the Performance and Innovation Team with the support of Erika Comrie.

The Committee queried as to why the Business Systems Fitness Review (BSFR) is out of scope, and suggested that this needs to be integrated and considered together. The General Manager Corporate Services clarified that whilst the BSFR work (an assessment of the organisations core systems) had been completed separately, the outcomes and recommendations from this review would in fact be fully considered and taken into consideration as part of this Service Review. The Committee asked that this be better reflected in the Service Review scope document.

The Committee noted the scope of the review and requested that the outcome should not be a focus on the organisations systems, which had already been assessed as part of the recently completed BSFR.

11.02 am The meeting was adjourned for five (5) minute
11.09 am The meeting resumed.

The Chair noted the arrival of KPMG and sought leave of the meeting to vary the order of the agenda. Leave was granted and item FAC181211R10 was brought forward.

**11.09am Internal Audit Program 2018/19 scoping documents
Report Reference FAC181211R10**

Mr Justin Jamison from KPMG introduced Mr Eric Beere who is the new engagement partner for the City of Marion contract. Mr Beere will be supported by Ms Heather Martens and James Rivett who have been working with the Council for some time. They will be responsible for most of the on ground work.

Ms Martens introduced the Procure to Pay report highlighting a total of six (6) recommendations and three (3) performance improvement opportunities. Ms Martens highlighted that the process of procurement had effective controls in place and the framework was very strong. The Council has invested significant work over the past few years with the implementation of the online requisition system, however the process is still very manual and had an impact on resource requirements to operate efficiently.

The Committee noted the report and the data analysis on page 121 states that nearly 60% of all transactions are under \$5k. It was suggested that Council needs to consider a higher use of credit cards in its procurement. With a well-structured and managed system of credit cards, Council can create good efficiencies.

The Committee noted the report and noted the system issues with Civica. It also noted the non-compliance with the use of purchase order procedure and queried if KPMG reviewed the exemptions list. KPMG indicated that the exemptions list was reviewed and it seemed reasonable. No change was recommended. The Committee suggested that management undertake a further review of the exemptions list to ensure that it is appropriate.

ACTION: that the exemptions list for Online Requisitions be reviewed.

The Committee also queried the risk rating for finding 3 (GST payment made to supplier with a cancelled GST registration) and suggested that although in this instance the figure was low, it had the potential to be a higher risk. It was also suggested that recommendation 6 – (review of supplier master file) had a fraud potential and should be addressed as soon as possible. It was noted that periodic reviews have been completed and that a purchase order could not be raised for an inactive supplier.

The Committee noted the scope of the Business Continuity, IT Disaster Recovery and Emergency Management and queried if a disaster recovery scenario would be run as part of the exercise. The Manager Corporate Governance advised that this was not intended as part of the review and the Council undertakes two business continuity exercises each year.

**11.32 am Framework and Key Assumptions for the preparation of the 2019/20 ABP&B and LTFP
Report Reference FAC181211R07**

The Manager Finance provided an overview of the report noting that the 2019/20 business planning process was similar to prior years. The key assumptions are based on actual spend from the prior year and the process has continued to improve over the past few years.

The Committee noted that the engagement with Elected Members is commencing the week of 17th December 2018 and the Annual Business Plan (ABP) and the 4 year Strategic Plan will need to run a parallel process.

The Committee noted the report and made the following comments:

- Although improving, carryovers continue to be high. What is Council's options/plan regarding how these will be managed? Should further controls or limits be established?
- Does the employee forecast still apply or does this need to be reconsidered? Council may potentially need to consider a small increase.
- Council may need to consider extra resources for implementation on ICT projects.
- The maintenance of assets in accordance with the Council Asset Management Plans needs to be appropriately reflected within the framework. Functionality and fit for purpose are included as part of this review.
- The rate increase for 2015/16 noted on page 55 is incorrectly listed at 4.9% and should have read 2.9%

The Committee noted that the Council budgets 1% each year for estimated growth. It was noted that if the property market dropped and the total value of properties decrease, Council would adjust the rate in the dollar to ensure it met its financial obligations without impacting on service delivery. The Committee discussed the equity in property values by the Valuer General (VG) noting that the VG is undertaking a 5 year project to have property values more aligned with market values within 5 years.

12.05am Biennial WHS & Risk Combined Evaluation Report Reference FAC181211R08

The Unit Manager Risk provided an overview of the report highlighting that this is a new process combining the risk and WHS audit/evaluation in one process. The results have demonstrated improvement on previous year's results and an action plan has been developed in conjunction with the LGA Schemes (both Workers Compensation and Mutual Liability) to address any non-conformance issues. The actions are tracked monthly and reported to the City of Marion via the CEO.

It was noted that hazard management and contractor management have been non-complying for some time. The Committee was advised that these are the largest areas audited and the most difficult to obtain compliance in. The Council is working towards these areas meeting compliance within the next two years.

The Committee noted the report and queried the assessment made regarding planning assessment and suggested that this may be contradictory to the internal audit completed earlier in 2018. It was noted that this audit was assessing the industry base line and not best practice. It was also noted that it was not to the same depth and scrutiny of the internal audit.

The Committee noted the report and the outcomes of the audits.

12.16 am Finance and Audit Committee Work Program and Meeting Schedule for 2019 Report Reference FAC181211R09

The Committee noted the report and agreed to the proposed meeting schedule for 2019.

Moved Mrs Hinchey, Seconded Councillor Gard that the Finance and Audit Committee:

1. Notes the proposed work program for 2019 identified at Appendix 1 to the report and includes a report on the new accounting standards in May 2019.
2. Adopts the following schedule of meetings for 2019:
 - Tuesday 26 February 2019 (9.30 am - 12.30 pm)

- Tuesday, 28 May 2019 (9.30 am - 12.30 pm)
- Tuesday 20th August 2019 (4 pm to 6 pm plus followed by joint workshop with Council from 6.30 pm onwards)
- Tuesday, 1 October 2019 (9.30am to 12.30 pm)
- Tuesday, 10 December 2019 (9.30 am to 12.30 pm)

Carried Unanimously

**12.19 am Treasury Management – Borrowings versus Cash Strategy
Report Reference FAC181211R11**

The Committee discussed the report and made a firm viewpoint that if you have cash available, it should always be used first instead of borrowing. The only exemption to this is if you need to establish a credit rating, then you should borrow to do so. The Committee agreed there are two types of debt – good and bad. Bad debt is when money is borrowed for operational business (i.e. core operations). Borrowings should only be considered for major new projects.

The Committee suggested that better clarity should be provided in regards to the definition of a bank in the Treasury Management Policy.

Councillor Gard suggested that Council needs a clear policy on this which states that projects that span over multiple generations could be funded by borrowings to ensure that costs are shared by those who use it.

It was noted the continual increase in Council cash reserves may reflect overcharging the ratepayer. The Committee suggested that this is a question of whether the rates are too high and not about borrowings which is a separate investment decision.

The Committee suggested that the Council should determine what is the prudent amount required for Council reserves and also determine if Council needs to set a credit rating for financial institutions where Council's funds are deposited as part of its Treasury Management Policy.

12.30 pm Extension of Meeting

Moved Councillor Gard, Seconded Ms Hinchey that the meeting be extended by 15 minutes to conclude the agenda.

Carried Unanimously

It was noted that Council has the option of purchasing an Interest Rate Collar to hedge against increases in interest rates into the future. This may be something for Council to consider.

8. REPORTS FOR NOTING

**12.37 pm Internal Audit Program – Implementation of Recommendations
Report Reference FAC181211R12**

The Committee noted the report and requested that management review all recommendations. If some of the recommendations are no longer relevant, the Committee requested an explanation as to why and then these should be removed from the list.

The Committee appreciated the additional information provided, but suggested that the report needed some tidying up.

It was noted that Council should consider if it needs to pay Civica additional fees to fix some of the outstanding systems issues (i.e. the recommendations from the Fines and Enforcement Review)

Councillor Clancy also requested a copy of the NDIS report.

**12.47 pm Project Management Framework Update
Report Reference FAC181211R13**

The Committee noted the report and that 80 staff have been trained in the new project management software. The Committee requested a demonstration at the next meeting and that the Framework also be presented.

ACTION – At the February 2019 FAC meeting the Project Management Framework be presented and a demonstration of the software be provided.

9. WORKSHOP / PRESENTATION ITEMS

Nil

10. ANY OTHER BUSINESS

Nil

11. MEETING CLOSURE

The meeting was declared closed at 12.45 pm

12. NEXT MEETING

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

Time: 9.30 am - 12.30 pm

Date: Tuesday 26 February 2019

Venue: Council Chamber, Administration Building

.....
CHAIRPERSON

/ /