

FAC190528 - FINANCE AND AUDIT COMMITTEE MEETING - 28 May 2019

Tuesday, 28 May 2019 at 09:30 AM

Council Administration Centre, 245 Sturt Road, Sturt



PRESENT:

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

In Attendance

Mr Adrian Skull	Chief Executive Officer
Mr Tony Lines	General Manager City Services
Ms Abby Dickson	General Manager City Development
Mr Ray Barnwell	Acting General Manager Corporate Services
Ms Kate McKenzie	Manager Corporate Governance
Ms Fiona Harvey	Manager Innovation and Strategy
Ms Cass Gannon	Innovation Leader
Ms Sherie Walzcak	Unit Manager Risk
Mr Dave Harman	Acting Manager Finance
Mr Lee Girolamo	Deloitte Touche Tohmatsu
Mr Patrick Leong	Deloitte Touche Tohmatsu
Mr Eric Beere	KPMG
Ms Shannon Jurkovic	KPMG

OPEN MEETING

The Chair opened the meeting at 09:31 AM

KAURNA ACKNOWLEDGEMENT

We acknowledge the Kaurna people, the traditional custodians of this land and pay our respects to their elders past and present.

MEMBERS DECLARATION (if any)

The Chair asked if any Member wished to disclose any conflict of interest in relation to any item being considered at the meeting.

Ms Natalie Johnston declared an actual conflict of interest with the confidential report Internal Audit Tender evaluation due to her employment with Ernst and Young.

CONFIRMATION OF MINUTES

Confirmation of the minutes for the Finance and Audit Committee Meeting held on 26 February 2019

Report Reference: FAC190528R01

Moved Councillor Gard

Seconded Ms Johnston

That the minutes arising from the Finance and Audit Committee Meeting held on 26 February 2019 be taken as read and confirmed.

Carried Unanimously

The chair sought leave of the meeting to move forward the report on the External Audit Engagement for the Year Ending 30 June 2019. Leave was granted.

9.34 am External Audit Engagement for the Year Ending 30 June 2019

Report Reference: FAC190528R11

Mr Lee Girolamo (Deloitte Touche Tohmatsu) and Patrick Leong (Deloitte Touche Tohmatsu) entered the meeting and provided an overview of the audit plan for the financial year ending 30 June 2019.

Mr Girolamo indicated that the external audit will be completed in accordance with the Australian Auditing Standards and the requirements of the Local Government Act 1999. The scope of the audit regarding internal controls will focus on the controls exercised by Council in relation to:

- Receipt, expenditure and investment of money
- Acquisition and disposal of property
- The incurring of liabilities.

Mr Girolamo indicated that the four (4) focus areas of the overall audit strategy will include:

- Revenue – rates and statutory charges and grant revenue
- Expenditure
- Non-current assets
- Internal controls assessments.

The Committee confirmed that the timetable had been confirmed with management and fits with reporting requirements.

The Committee noted:

- The rotational cycle for testing the operational effectiveness of the internal controls
- Expenditure will be the focus for the 2019 audit
- When operational effectiveness has not changed, the auditors can rely on previous audit work completed
- Revenue will focus on rates, statutory charges and grant revenue
- Expenditure will focus on materials, contract and other expenses, including the approval processes.

The Committee queried the hand over process with Ms Penny Woods (previous audit partner). Mr Girolamo indicated that last year's audit file had been reviewed plus he had access to the past five (5) years audit files. They had also been briefed regarding Councils process and the required engagement with the Committee and Council at the conclusion of the audit. Any further information required could be followed up directly with Ms Woods.

Moved Councillor Clancy

Seconded Ms Hinchey

That the Finance and Audit Committee:

1. **Considers the outline of Deloitte's Audit Plan for the financial year ending 30 June 2019.**
2. **Notes the scope of the audit to be carried out by Deloitte for the year ending 30 June 2019.**
3. **Notes that the Chief Executive Officer will execute the acknowledgement of engagement letters.**

Carried Unanimously

9.47am Business Arising Statement

Report Reference: FAC190528R02

The Committee noted the Business Arising Statement highlighting the following:

- A number of items have been closed out.
- The criteria for the sale of properties due to long outstanding rates debts has now been considered and adopted by Council. This item had received some media/community attention and over \$50k of long term outstanding rates debt had been received in recent months.
- A report on the impact of the new accounting standards will be brought to the next meeting. This will include the new leasing standards noting any embedded leases that may impact.

CONFIDENTIAL ITEMS

9.52pm Internal Audit Tender Evaluation

Report Reference: FAC190528F01

9.52 am Ms Johnston declared an actual conflict of interest due to her employment with Ernst and Young and left the meeting.

Moved Councillor Clancy

Seconded Councillor Gard

That pursuant to Section 90(2) and (3) (d)(i)(ii) of the *Local Government Act 1999*, the Finance and Audit Committee orders that all persons present, with the exception of the following persons: Adrian Skull, Ray Barnwell, Abby Dickson, Tony Lines, Kate McKenzie, Jamie Dunicliff be excluded from the meeting as the Finance and Audit Committee receives and considers information relating to the Internal Audit Tender, upon 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 contains commercial information that would on balance, be contrary to the public interest.

Carried Unanimously

9.52 am the meeting went into confidence.

Moved Ms Hinchey

Seconded Councillor Gard,

That the Finance and Audit Committee:

- 1. In accordance with Section 91(7) and (9) of the Local Government Act 1999 orders that this report, the minutes arising from this report and any other information distributed at the meeting having been considered in confidence under Section 90(2) and (3)(d)(i)(ii) of the Act shall, except when required to effect or comply with Council's resolution(s) regarding this matter be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting. This confidentiality order will be reviewed at the December 2019 Council meeting.**

Carried Unanimously

10.06 am the meeting came out of confidence

10.06 am Ms Johnston re-entered the meeting

REPORTS FOR DISCUSSION

10.06 am Elected Member Report

Report Reference: FAC190528R03

Councillor Clancy provided an overview of the report highlighting that Council had been very focused on its Annual Business Plan and Budget. Councillor Clancy indicated that the current budget was based on a 1.8% rate increase however, some members were interested in exploring a lower rate increase.

The Committee noted the report and queried the Boundary Reform matter before Council and how it related to the Council's strategic plan? The Manager Corporate Governance provided an overview of the process to complete a Boundary Re-alignment informing the Committee that the process is undertaken in two distinct stages (stage 1 and stage 2). The work currently being completed is pre-work to assist Councils making decision regarding if they should commence the stage 1 process (or not). The Committee advised that Council should be clear on the risks and opportunities prior to making a decision about progressing with the boundary re-alignment.

Councillor Gard provided the Committee with a chart (Appendix 1 to the minutes) regarding revenue and borrowings. He raised the ongoing impact of rate stress on the community and although Council is likely to have some significant investments regarding asset management to address in the coming financial year, he believes Council should further look at its financial ratios regarding how Council can better use borrowings in the future and if there is further opportunity to reduce rates. The Committee indicated that the Council has a large and ambitious capital expenditure program of \$44m forecast for the 2019/20 financial year and Council should not be concerned with the proposed rate which will be required to deliver the projects and capital works in 2019/20 noting Marion is proposing one of the lowest rate increases and also maintaining the fifth lowest costs rates payable across Adelaide Councils. The Committee cautioned that if it wishes deliver a large capital budget, it needs to ensure it is financed and resourced appropriately. The Committee also noted that the charts do not provide expenditure details meaning that it does not provide a complete picture and should be read with some caution.

10.33 am Service Review Program and Recommendations - Progress Update

Report Reference: FAC190528R04

The Innovation Leader entered the meeting and advised the Committee that since the last meeting, four (4) service reviews had now been completed and a number of recommendations had been closed out. Work was progressing on the ICT cross council service review which was being progressed collaboratively with both the Cities of Charles Sturt and Port Adelaide Enfield.

The Committee queried what the desired outcome was regarding the ICT Strategy. It was highlighted that the recommendations related to have best of breed applications rather going down the path of replacing a full enterprise system. The challenge is how to integrate and ensure a range of useful systems across the sector to allow for cross collaboration work. The opportunities being identified relate to smaller systems however if Council was to consider a full ERP solution, both Cities of Charles Sturt and Port Adelaide Enfield are using TechOne.

The Committee noted the report was in draft however, some sensitivities had occurred regarding reporting and the priority of implementation of recommendations. This had caused some delays meaning the review will be reported to the August 2019 Finance and Audit Committee Meeting. The Committee indicated there was an opportunity to learn from the process and implications of joint reviews.

The Committee sought an update on a number of items and the following information was provided:

- Living Kaurna Cultural Centre - The matter had been referred to Council recently and further discussion was progressing via the Infrastructure and Strategy Committee before returning to Council for decision in July.
- Asset Management – The team was progressing with data cleansing in preparation for a decision regarding the Asset Management System.
- Records Management – A review of the staff resourcing and structure was now complete and recruitment for a Team Leader Records is in progress. The Records Management Framework was now in draft, however this will require input from the new Team Leader before being finalized.
- Dog Registration – the new processes has shifted a number of administrative tasks and hence the transition to a new system has created some additional work. This is currently still being worked through.

10.50am Internal Audit Program 2018/19 - Tendering and Business Continuity

Report Reference: FAC190528R09

Eric Beere (KPMG) and Shannon Jurkovic (KPMG) entered the meeting. Mr Beere provided an overview of the Tendering Internal Audit highlighting that the contracts team have a strong understanding of the tendering process and engage well with internal users within the City of Marion. Mr Beere highlighted there was one moderate finding relating to conflict of interests not always being completed. The Committee noted this moderate risk and suggested that the management comment should be enhanced. The Committee suggested that a key performance indicator is created to ensure all tender files have a completed conflict of interest form and develop an internal check list on share point for each tender file with the key documents noted.

Mr Beere commented the two (2) low risks within the report, particularly the finding relating to improved engagement with tender respondents and the need for tenders to receive quality feedback. The Committee noted that feedback to tenderers should be balanced with the requirement of commercially sensitive information. The Committee suggested that staff need appropriate training to ensure they don't put themselves or the organisation at risk of releasing any confidential information.

Ms Jurkovic provided an overview of the Business Continuity Internal Audit noting it was a positive review and the City of Marion's documentation and testing regimes were excellent. The audit made two key findings, one relating to a Business Impact Assessment and the other related to simplification of the key documents. The Committee noted the report and commented that the business impact assessment needs to focus on operations and the service level requirements during a recovery period.

11.02am Annual Business Continuity Management Program

Report Reference: FAC280519R05

The Unit Manager Risk entered the meeting and provided an overview of the report highlighting the business continuity program for the past 12 months. This included the details of the joint exercise between Marion, Mitcham, Onkaparinga and Holdfast Bay and the Council's internal exercise completed in April 2019.

The Committee noted that report and queried if the Community Emergency Management Plan and the Council's Emergency Management Plan had overlap? The Committee was advised that these are separate documents as they have a different audience however the processes are the similar and the documents reference each other.

The Committee indicated that the Council is progressing well with its Business Continuity Program. The Committee requested that the recommendations from the KPMG report be included as part of the 2019/20 activities.

11.08 am Annual Corporate Risk Report

Report Reference: FAC280519R06

The Unit Manager provided an overview of the report noting that the risk program is maturing across the organisation. During the past 12 months, the climate change risk had increased based on information provided through the sector about the quantification of this risk. It was noted that the City of Marion's risks were assessed well against the sector risks that were identified within the 'Local Government CEO's ranking of the Top Risks in the Sector' document.

It was noted that Risk Management Framework and Policy is due for review and as part of this process, a risk management maturity assessment will be completed to inform activities and initiatives for the Risk Management Program in 2019/20.

The Committee noted the report and provided the following comments:

- A review of reputational risk is worth considering. The Council needs to ensure it has good systems/processes for its communication and the management of key stakeholders.
- Cyber risk, particularly a cyber-attack requires further evaluation as it is currently forecast as low. The Committee indicated that based on the current sophistication of some cyber-attacks, it is unlikely that the forecast risk could be low, and that further work be done in this area.
- The governance risk (break down of Council Administration and Elected Member working relationship) is currently rated high. The Committee suggested that this should be reviewed now the election period with State, Local and Federal has concluded.
- The number of inherent extreme risks should be reviewed and this seems to be excessive.
- During the next review, the lack of consequence reduction within the residual risks should be reviewed as mitigation of the consequences is also possible alongside mitigation of the likelihood.
- Review the number of low risks that has increased to medium.

- 14 actions are due for completion in June. Management need to ensure that they have the resources to deliver these.

It was noted that further work is scheduled for the joint FAC and Elected Member Forum in August regarding Councils risk appetite and tolerance.

Skills Matrix and Terms of Reference Review

Report Reference: FAC190528R07

The Committee noted that report and the self-assessment skills matrix completed by the members of the Committee. It was noted that the Committee had all required skills covered and that the Elected Members of the Committee had also just completed financial management training with Mr Henry Botha.

The Committee noted the recommended change within the Terms of Reference and also suggested that the Committee should note the Council's quarterly budget reviews to help provide a more fulsome understanding of the financial implications of the Council.

Moved Councillor Clancy

Seconded Ms Hinchey

That the Finance and Audit Committee:

- 1. Notes the Skills Matrix of the Committee (Appendix 1)**
- 2. Recommends to Council that the changes highlighted within the Terms of Reference to the Finance and Audit Committee be adopted with the Quarterly Budget Review included for noting.**

Carried Unanimously

11.30 am Corporate Reporting Framework

Report Reference: FAC190528R08

The Manager Corporate Governance provided an overview of the report highlighting that eight (8) elements of reporting had been identified to provide for balanced reporting across the organisation. The Framework defines the governance structures for reporting of key performance indicators aligned to the eight elements.

The Committee noted the report and made the following comments:

- Management need to review the number of internal committees and consider which ones can be merged. Approximately 4 - 5 Committee would provide a more efficient approach.
- The Framework should consider articulating more information regarding the timing of the reporting.
- A one page reference guide on the front page may be useful for the users of the Framework.

11.33 am Service Review Program - History and FY2019/20 plan

Report Reference: FAC190528R10

The Innovation Leader provided an overview of the service review plan for 2019/20 and the realization of improvements through the current plan. The Committee noted that the number of recommendations had reduced over the past 12 months with the Performance and Innovation Team supporting the implementation of 17 recommendations.

The Committee queried if the program has been able to identify real savings. It was noted that direct savings have been realized within the Open Space Operations and also an increase to service delivery and standards. The Committee noted the list provided however queried if it is possible to quantify the

dollar savings further.

The Committee noted:

- That the City of Marion is looking for more cross council opportunities
- Post implementation review has now been built into the process
- The proposed program for 2019/20 in Appendix 2.

11.39 am Draft Annual Business Plan 2019/20 and Long Term Financial Plan Update Report Reference: FAC190528R12

The Committee noted community consultation of the Annual Business Plan and Budget concluded on the 17th May 2019. The draft budget is based on 1.8% and is balanced using funding from reserves to ensure all identified initiatives could be funded.

The Committee highlighted/noted:

- That the Council has a very ambitious work program (outlined on page 121 of the agenda) and needs to ensure it has the resources and staff to deliver the full program.
- That Council had received an election promise of \$5m for the redevelopment of the Mitchell Park Sports and Community Centre and this project now funded to \$15m. Work has progressed on a revised section 48 prudential report which the Committee will consider at a later date.
- The number of initiatives due to be completed in 2019/20. The Committee noted that program is extensive and queried if the organisation have the ability to deliver. The Committee cautioned that because the Plan is very full, it will be challenging to complete. There will be little opportunity for new ideas over the next 12 months and there is risk that the Plan won't be delivered due to the size of the program (i.e. \$44m of capital works).
- If Council does have any, it will need to assess what gets rescheduled. It also noted that the Plan doesn't include any details from the Strategic Asset Management Review the impact of which won't be quantified until the end of the year.
- The item relating to health, wellbeing and social isolation doesn't reflect any comment about social isolation. This should be included.
- The item relating to innovation could be better described. The linkages between the Oaklands Crossing and innovation requires rewording.

The Committee noted the proposed KPI's and made the following comments:

- Council may like to consider weighting particular projects as the concern is that all projects are currently considered equal.
- The LTIFR should be clarified into layperson language
- The total employee costs should be based on budget and not the previous year actuals. The budget for staff is set based on the work program to be delivered and hence the previous year actuals could create of very challenging and counter-productive KPI.
- The community engagement/communication KPI requires further clarification and information regarding how it will be measured. This seems unclear.
- The KPI's should be complementary to the other KPI's and not in competition.

Finally, the committee suggested that the operating surplus ratio should be altered to 0 – 10%, rather than 0 – 5% as it seems misleading with the forecast surplus set to sit within the 0 – 10% range.

REPORTS FOR NOTING

12.03 pm Internal Audit Program - Implementation of Recommendations

Report Reference: FAC190528R13

The Committee noted the report and made the following comments:

- The City of Marion and City of Charles Sturt has implemented a shared procurement model to reduce duplication across the Councils at an operational level. These arrangements have now been implemented but the changes to the team have impacted on the timing of implementation of the recommendations for the Contract Management Review.
- The development assessment audit recommendations are nearly complete. The online payment recommendation is approximately 4 – 5 weeks from being implemented and closed out.

12.07 pm Development Assessment Internal Audit - progress report.

Report Reference: FAC190528R14

The Committee noted the report and the progress made regarding the implementation of recommendations. The team has progressed well with the review/change of documents and the implementation of training. The team has focused on reviewing its delegations, checklists and processes. The team has also focused on the team culture and customer experience via customer satisfaction survey. The information being provided is generally customers are satisfied however are not happy when things take too long or they don't understand the process. The team is now preparing (in conjunction with Charles Sturt) for the implementation of the e-planning portal.

WORKSHOP / PRESENTATION ITEMS

Nil

OTHER BUSINESS

The Committee acknowledged the resignation of Mr Vincent Mifsud, General Manager Corporate Services and thanked him for his valuable contribution to this Committee over the past ten years.

MEETING CLOSURE - Meeting Declared Closed at 12.12 pm

CONFIRMED THIS 20th DAY OF AUGUST 2019

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CHAIRPERSON

Appendix 1 - Elected Member Report (Councillor Gard)

