

**FAC191008 - FINANCE AND AUDIT COMMITTEE MEETING - 8 October 2019**

**Tuesday, 08 October 2019 at 09:30 AM**

**Council Administration Centre, 245 Sturt Road, Sturt**



## **IN ATTENDANCE**

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

### **In Attendance**

Mr Adrian Skull	Chief Executive Officer
Ms Sorana Dinmore	General Manager, Corporate Services
Mr Tony Lines	General Manager City Services
Ms Illa Houridis	General Manager City Development
Mr Ray Barnwell	Manager Finance
Ms Kate McKenzie	Manager Corporate Governance
Mr Dave Harman	Unit Manager, Statutory Finance & Payroll
Ms Karen Brewster	Acting, Innovation Leader
Ms Sherie Walzcak	Unit Manager Risk
Mr Lee Girolamo	Deloitte Touche Tohmatsu
Mr Charlie Hall	Deloitte Touche Tohmatsu
Mr Eric Beere	KPMG
Mr James Rivett	KPMG
Mr Michael Richardson	BRM Advisory

## **OPEN MEETING**

The Chair opened the meeting at 09:30 AM.

## **KAURNA ACKNOWLEDGEMENT**

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

## **ELECTED MEMBERS DECLARATION (if any)**

## **CONFIRMATION OF MINUTES**

**Confirmation of the minutes for the Finance and Audit Committee Meeting held on 20 August 2019**  
**Report Reference: FAC191008R01**

**Moved Councillor Clancy, Seconded Ms Johnston**

1. That the minutes arising from the Finance and Audit Committee Meeting held on 20 August 2019 be taken as read and confirmed subject to the typos identified.

**Carried Unanimously**

## **BUSINESS ARISING**

### **Business Arising Statement**

**Report Reference: FAC191008R02**

That the Finance and Audit Committee notes the Business Arising Statement and the work program presented in the agenda. The Committee noted that all reports were listed in accordance with the schedule.

The Committee noted that at the previous meeting, the desktop review of infrastructure construction was noted and a report was to be brought back to the Committee in October / November 2019. The Committee requested that this be added to the schedule of reports.

**ACTION: that a report on the desktop review of Infrastructure Construction be brought to the December 2019 Finance and Audit Committee Meeting.**

## **CONFIDENTIAL ITEMS - Nil**

## **REPORTS FOR DISCUSSION**

### **Elected Member Report**

**Report Reference: FAC191008R03**

The Committee enquired about the Council decision regarding the Cove Cobra Football Club and the media attention around the matter. It was noted that the Council had undertaken an independent investigation and determined to not renew the clubs tenancy on the basis of a finding of inappropriate, sexist and intimidating behaviour. The Committee noted the community interest and that Council would receive a petition with approximately 6500 signatures. The Committee also queried if the Club had been provided natural justice as part of the process and it was noted that the Club had been aware of issues for a long time.

### **Annual Financial Statements for the year ended 30 June 2019**

**Report Reference: FAC191008R04**

Mr Lee Girolamo from Deloitte provided an overview and thanked staff for the smooth audit.

He noted that the audit was completed in accordance with the requirements of the Local Government Act and the accounting standards. The Audit is now substantially complete and no misstatements with a material impact were noted. Additionally, no insufficiencies in internal controls were identified however some control observations were made.

The audit procedure focused on audit risks and included the following:

- Infrastructure, Property, Plant and Equipment (IPPE)
- Rates, revenue and grants.
- Grant income – ensuring the funds are expended in accordance with the agreement. No issues noted

The Committee made the following comments:

- That new accounting standards in relation to leases and revenue will commence for the year end June 2020 and Council will need to comply.

- That detailed testing had occurred on expenditure and strong controls were evident
- All journals reviewed had appropriate explanation
- All minor matters raised have been rectified by management.
- A total of 103 internal controls were tested and risk rated. Only two (2) items, noted as insignificant, were identified. One relating to the process of review for the Register of Allowances and Benefits and the other relating to the system being able to report changes to the Masterfile in Authority. The Committee noted that this can still be tracked and you can see who made the last change, however the system can't produce a report. The Committee asked that the recommendations be tracked as part of the internal audit recommendations so the Committee can see the progress at each meeting.

**Action - Add the external audit recommendations to the report for the internal audit recommendations to ensure consistency in reporting.**

The Manager Finance also made the following comments on the Annual Financial Statements:

- Council's Auditors have indicated that they expect to issue an unmodified audit opinion.
- The Council recorded an operating surplus of \$12.134m, compared to an operating surplus of \$10.904m for 2017/18 and \$7.740m greater than the surplus forecast in the original adopted 2018/19 budget. The analytical review provided on pages 34-36 of the agenda outlines the key variances from both original budget and movement from prior years accounts
- Total Operating income for 2018/19 was \$95.637m compared to \$92.566m in 2017/18. The increase of \$3.071m predominantly results from an increase in Rates of \$2.3m (from an adopted rate increase of 1.8% + growth) in addition to the advance receipt of 2019/20 and 2020/21 Supplementary Road grant funding of \$0.963m.
- Total Operating expense for 2018/19 was \$83.503m compared to \$81.662m in 2017/18. The increase of \$1.841m (2.3%) predominantly relates to an increase in Materials, Contracts & Other Expenses of \$2.313m (7.5%) which includes a significant once-off cash contribution (\$1m) to the Oaklands Crossing grade separation project, election expenses incurred every 4 years (\$0.367m) and other annual increases to waste collection and utilities..
- Employee costs came in slightly below adopted 2018/19 budget at \$34.8m but increased \$1.587m (4.8%) from 2017/18 including annual increases from Enterprise Agreements (2.3% Salary and 2.5% Wages) and lower than average capitalised labour (where staff costs are allocated to capital works). In addition, there were increases to grant funded positions (\$170k) and Council approved positions (\$211k).
- Other key variances reported on the Statement of Comprehensive Income are Amounts Received Specifically for New or Upgraded Assets (up \$3.117m) predominantly relating to State Government Grants received for the Sam Willoughby International BMX Track (\$1.3m) and Birch Crescent Streetscape (\$1.8m). Physical resources received free of charge has increased by \$5.189m primarily due to contributed assets relating to the Tonsley redevelopment. Depreciation has dropped by 11%.
- The key ratios are strong and reflect solid cash position. Council currently has \$38m in reserves, however there are a number of large projects in the 2019/20 budget which are due to commence shortly that will use some of these reserves.

The Committee cautioned the Council about how many major projects are being managed at one time to ensure resources are adequately allocated. It may be a significant risk to manage three major projects at the one time without appropriate resources.

The Committee also noted/queried:

- That the financial ratios look fabulous and terrible at the same time. The Council is in a strong position but is keeping a lot in reserves. Is Council collecting too much from rates and not doing enough with it? The Capital works program this year is \$44m (including) Mitchell park. It would be good to demonstrate how the key ratios appear each year under the LTFP.

**Action – The key ratios are to be calculated for each year of the LTFP and brought to the next meeting.**

- Council needs to ensure that its KPI's are enabling the business to function and not restricting its ability to delivery.
- The increase in carryovers and noted that \$9.8m related to grants plus \$1m for the Asset Management System and \$1.8 for Streetscapes retimed to future years.
- That the Buildings Asset Renewal program which has yet to be defined will impact on the ratios.
- Why the insurance rebate is considered as income and not a reduction in the expenditure?

**Action: In the Business Arising statement for the next meeting, please provide details as to why the insurance rebate is considered as income and not a reduction in the expenditure?**

- Why the sundry debtors had increased - it was noted that this mainly related to significant grant funding for Tonsley Greenway (\$1.7m) and the final grant payment for the Edwardstown redevelopment (\$400k). These grants had been invoiced prior to year-end but funding had not been received at the end of the financial year.
- That the Materials, Contracts and Other expenses has increased by \$1m due to the once-off cash contribution to Oaklands grade separation project.
- The two regional subsidiary financial statements. The Committee noted SRWRA is doing well but didn't provided a dividend this year however they are looking strong and spending the surplus on improvements to the business. The Committee questioned what the long term outlook for Council Solutions is, as Council is doing a lot with Charles Sturt and Port Adelaide Enfield. The Committee noted that there is low risk for Council using other procurement options.

### **Moved Ms Hinchey, Seconded Councillor Clancy**

That the Finance and Audit Committee:

1. Recommends to Council that the audited Annual Financial Statements for the year ended 30 June 2019, as included at Attachments 3-5, be adopted.
2. Notes Deloitte'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.
4. Update the ratios before being presented to Council – 5 year average.
5. Note that the letters will be signed as noted within the Committee reports.

**Carried Unanimously**

**Meeting with the External Auditors in Confidence (without management present)**

**Report Reference:** FAC191008R05

**Moved Councillor Clancy, 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 Mr Lee Girolamo and Charlie Hall from Deloitte Touche Tomatsu, 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.
2. Include the following comments within the minutes:

10.23am The Committee moved into confidence

The members of the Finance and Audit Committee met representatives of Deloitte's Lee Girolamo and Charlie Hall without Management present. The Deloitte representatives were asked about the relationship they felt they had with the Management team during the Audit process. Mr Girolamo commented that they had received good support and assistance from the Marion team during the Audit. Information requested was received in a timely and accurate manner. He went on to say that the Marion had added extra controls to their own audits which showed a good culture existing internally.

**Adjournment**

The Chair requested a 5 minute adjournment

10.35 am the meeting was adjourned

10.40 am the meeting resumed

**Internal Audit Plan 2019 -2021**

**Report Reference:** FAC191008R07

Mr Eric Beere and Mr James Rivett from KPMG entered the meeting. Mr Beere advised the Committee that this would be Mr Rivett's last meeting as he had tendered his resignation with KPMG. The Committee thanked Mr Rivett for this work with the Council over the past 4 years and wished him well. The Committee queried Mr Beere about the succession plan? It was noted that this was currently being worked through with the Manager Corporate Governance.

Mr Beere provided an overview of the Internal Audit Plan (IAP) highlighting that the proposed plan was for two years however there was still flexibility within the second year. The IAP proposed four (4) collaborative projects across the two years and was drafted via collaborative workshops (including a joint session with both Executive Teams) and individual stakeholder meetings. He highlighted that there was strong engagement for the collaborative model.

The Committee noted that:

- Five (5) projects had been proposed for year one (1) and three (3) of these were collaborative projects.

- The second year only had one (1) collaborative project however this may change.
- The IAP wasn't a traditional program but more business reviews auditing the effectiveness of the business. A review of the Service Review Program and IAP has been completed to ensure that resources had been allocated appropriately.
- It may be easy to overlook the basics and Council needsto ensure that the internal controls are still adequately audited.
- WHS hadn't been included within the program however, it will be audited via other means (i.e. insurance schemes)
- The Community Facilities management model review didn't include benchmarking. It was noted that this should be included within the scope and ensure best practice is measured.

The Committee queried what interaction had occurred with the external auditors? It was noted that it had been limited to date but KPMG will formalise this and organise to catch up a few times a year.

**Moved Councillor Clancy, Seconded Ms Johnston**

That the Finance and Audit Committee endorses the draft Internal Audit Plan 2019-21.

**Carried Unanimously**

**Meeting with the Internal Auditors in Confidence (without management present)**

**Report Reference: FAC191008R06**

**Moved Ms Hinchey, Seconded Ms Johnston**

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 Eric Beere and James Rivett from KPMG, as the Finance and Audit Committee meets with Council's Internal 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**

10.49 am The Committee moved into confidence

The Members of the Finance and Audit Committee met representatives of KPMG Eric Beere and James Rivett without Management present. The Committee noted that Mr Rivett was leaving KPMG and was assured by Mr. Beere that he would be replaced by equally experienced staff. When asked about the relationship with the Marion staff Mr Beere commented that the relationship was a good one and that they (KPMG) found Marion staff to be engaged in the process, providing information in a timely manner. They also were very open to constructive comments and the team were able to have healthy debates around a range of issues. He also commented on the excellent support they received from the Corporate Governance area. The next few years where the Collaboration Model will be embedded across the two Councils should see greater learnings, savings and efficiencies coming back to all parties.

**Mitchell Park Sports and Community Centre revised Section 48**

**Report Reference: FAC191008R08**

Michael Richardson from BRM Advisory provided an overview of the report highlighting that the project had

a long history and the model had changed from four (4) courts to two (2) courts. There is a lack of indoor courts south of Adelaide. There is a high probability that the courts will be readily sort after. The preliminary decision for four (4) courts was discussed by Council prior to any external funding being received and Council was originally looking for 50% contribution for the project being \$10m from Council and \$10m externally. Council received \$5m commitment from Nicole Flint MP as part of the Federal Election process and the Council resolved to contribute up to \$10m and hence, the project was re-scoped to fit within available budget.

The Committee noted the report and made the following comments:

- The calculations for \$185k in court hire revenue from the proposed two courts is unclear within the report? It was noted that research undertaken to determine what revenue can be made per court found that, one court can earn up to \$100k per annum.
- The operating model for the Centre has the Council managing the facility including the bar and meals. The Committee noted that this would remove this income opportunity from the clubs. It was noted that Mitchell Park is operating with a different management model with the Club currently paying all service staff rather than having volunteers. The Club is currently running cost neutral with no surplus.
- The operating model provides 2.5 FTE council funded positions and if the Neighbourhood Centre is included on this site, the Neighbourhood Centre staff could also assist also with some of the administration requirements during the day Monday-Friday when the courts component of the Centre is less busy.
- Additional elements of the design have been removed to make the project fit the budget. The Committee requested that management confirm that the elements that have been removed, will not impact in the success and/or operations of the site. It was confirmed that these design elements were the 'nice to haves' and not critical to the operations.
- The financial analysis is unclear as the detailed design has not been completed. The Section 48 Prudential Report was unable to comment sufficiently as the financial analysis seems incomplete. The financial information was gathered in 2015 reviewed and updated however in order for the Section 48 Report to be as useful as possible, BRM need access to more up to date information. The Committee suggested that further detailed design work is required which will inform the financials and needs to be completed to understand the full picture before the Committee can recommend to Council to progress with the project. The Committee also suggested that the Return on Investment be calculated for the project with 2 courts and with 4 courts for comparison and decision-making purposes.
- The Community has not been consulted since 2016 and hence further community engagement is required as the design is now different.
- The Council needs to ensure that it has capacity to support the long term running costs of the Centre. The Committee suggested that once the further design work and financials are completed, this will give the Council a better understanding of the financial risks of the project.
- The new design incorporates female facilities and change rooms to support growth in women's AFL.
- The federal government funding has not been received to date. Management is preparing a business case for receipt of the funding deed. It is recognized that this is a marginal seat and highly unlikely that the funding won't be received.
- Council's next iteration of the Long Term Financial Plan will be updated in December to incorporate the changed timing of and any additional costs for this project. The current LTFP includes Council's



contribution of \$10m to the capital costs which is currently forecast to be funded through borrowings.

- The budget of \$14k for marketing and promotion of the centre won't be enough. It is recommended that an increase in the marketing budget is required to make the project successful.
- The data is too old to make informed decision on.
- Council should review other projects (i.e. Edwardstown and City of Charles Sturt Rec Centre) and the post implementations reviews for any learnings that can be applied. Council could consider inviting the manager from Charles Sturt to sit on the project steering group for independent advice.
- Councils needs to be aware of other projects / competing priorities and ensure that resources are appropriately allocated.
- The project may require some additional project management resourcing to be included within the total project budget.

In summary, the Committee suggested that the project is a good investment for the Community however, the Council consider the following:

1. Completing further detailed design work
2. Updating cost estimates and the financial analysis within the Section 48 report
3. Reviewing the costs to date and the costs to be incurred if detailed design progresses.
4. Completing a return on investment analysis for a two (2) and four (4) court option. If the four (4) court option creates a higher revenue stream and a better return on investment, Council may consider reverting to this option (if the site is suitable for four courts).
5. Reviewing the financial analysis following detailed design to fully understand the long term running cost to Council of the centre.

### **Service Review Program and Recommendations - Progress Update**

#### **Report Reference: FAC191008R09**

The Acting Innovation Leader provided an overview of the program highlighting the nine (9) reviews will be completed this financial year. One (1) will be internal only (Neighbourhood and Community Centres) and the eight (8) other reviews will be collaborative with Cities of Charles Sturt and Port Adelaide Enfield. It was noted that the Utility Review was underway and will be completed by January 2020. The Committee noted that there were no barriers to complete the full program by June 2020.

The Committee noted the report and the implementation of recommendations continues.

### **Independence of Council's Auditor**

#### **Report Reference: FAC191008R10**

### **Moved Ms Hinchey, Seconded Ms Johnston**

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 2018/19 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 2018/19 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 2018/19 financial year.

**Carried Unanimously**

**Finance and Audit Committee Annual Report to Council 2018/19**  
**Report Reference: FAC191008R11**

**Moved Councillor Clancy, Seconded Ms Hinchey**

That the Finance and Audit Committee:

1. Endorses the Annual Report to Council for 2018/19 provided at Appendix 1 to this report, subject to amendments as required, prior to being presented to the General Council meeting on 22 October 2019.

**Carried Unanimously**

**Fraud and Corruption Management Annual Performance Report 2019**  
**Report Reference: FAC191008R12**

The Unit Manager Risk provided an overview of the report and project noting that it has focused on proactive initiatives, resourcing and training for staff. The program includes a corporate tool which leaders are required to complete to assist with the testing of internal controls. The actions from the corporate tool are monitored through the Risk Working Group.

It was noted that the Council will be providing mandatory training to all staff regarding the new requirements of the Public Interest Disclosure Act and ICAC refresher training. This will be rolled out before the end of the financial year.

The Committee noted that comments on credit cards and suggested that the Council may need to consider having more cards. They are generally a safe way to purchase with good controls around them.

The Committee suggested that it may be good to have some kind of fraud penetration testing undertaken to test controls and that an update on the records management items be brought back to the next meeting.

**ACTION: that an update is provided through the business arising statement on the records management items at the next meeting**

**REPORTS FOR NOTING**

**Debtors Report**  
**Report Reference: FAC191008R13**

The Committee noted the report and noted that Council will be progressing utilising its powers under S184 to potentially sell properties to recover rates arrears greater than 3 years old in the next few months.

The Committee noted:

- That it is rare that the Council will write off funds and in recent years, this has been minimal (\$3k - \$6k).
- The Sundry debtors process starts at 60 days. It was suggested that a process step at 30 days should

also be included.

- The City of Charles Sturt have been using the S184 process well and it may be worth looking at to see if there are any opportunities for improvement in our processes.

### **Investment Performance 2018/19**

**Report Reference: FAC191008R14**

The Committee noted the report and commented that:

- The Council is investing wisely. It was noted that Bank SA have recently been used for investment as they were competitive however, bulk of the Councils investment is with the Local Government Finance Authority (LGFA).
- The average daily cash balance is low however it is used for everyday transactions only. The cash flow can fluctuate from time to time depending the time of year.
- On page 276 of the agenda, the inclusion of the General Bank Account earnings is skewing the performance results and hence, consideration should be given to removing this. The Committee did note that it is included to deter balances from being kept in that low earning account which is a good control but others may be possible.

### **Internal Audit Program - Implementation of Recommendations**

**Report Reference: FAC191008R15**

The Committee noted the report and that a fulsome review of the timing, intended actions and outstanding recommendations needs to be completed prior to the next meeting.

### **WORKSHOP / PRESENTATION ITEMS - Nil**

### **OTHER BUSINESS**

The Committee acknowledge and thanked Mr Connor for his contribution, advice and knowledge over the past 6 years and wish him well with his future endeavors. Mr Connor also thanked the staff and elected members and expressed his appreciation for being a part of the Committee. He indicated that he had enjoyed his time on the Committee and the Council was in a good position to deliver for its community.

**MEETING CLOSURE** - Meeting Declared Closed at 12:31 PM

**CONFIRMED THIS 10 DAY OF DECEMBER 2019**

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**CHAIRPERSON**