

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING
HELD AT THE ADMINISTRATION CENTRE
245 STURT ROAD, STURT
ON TUESDAY 15 DECEMBER 2015**



PRESENT

Mr Greg Connor (Chair), Mr Lew Owens, Ms Kathryn Presser, Councillor Tim Gard, Councillor Raelene Telfer

In Attendance

Mr Adrian Skull	Chief Executive Officer
Mr Vincent Mifsud	Director
Ms Abby Dickson	Acting Director
Ms Kate McKenzie	Manager Corporate Governance
Mr Ray Barnwell	Manager Finance
Ms Fiona Harvey	Manager Innovation and Strategy

1. OPEN MEETING

The meeting commenced at 3.00 pm. The Chair welcomed all those present to the meeting and acknowledged Councillors Gard and Telfer as the new Elected Member representatives of the Committee.

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 declarations were made.

4. CONFIRMATION OF MINUTES

Moved Mr Owens, Seconded Councillor Telfer that the minutes of the Audit Committee meeting held on 13 October 2015 is confirmed as a true and correct record of proceedings.

Carried Unanimously

5. BUSINESS ARISING

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

- Item 2 relates to the Project Management Review. The Committee requested that the report be circulated out of session. Consultation is currently occurring with the new CEO to bring him up to date with the review and it will be distributed thereafter.
- Clarification was sought on item 9 regarding the recovery of rate debts greater than 3 years old (ie. Specifically relating to "Deferred Rates") from the sale of property (noting that the properties were generally deceased estates of properties for sale). It was noted that \$90k was received by City of Marion within 2 years, significantly reducing the debt.

- The Corporate Risk Profile was listed for the 15th December 2015 meeting but will be presented to the first meeting in 2016. Significant progress has been made regarding the risk review but it has yet to be considered by the Executive Leadership Team (ELT).

6. ELECTED MEMBER REPORT

6.1 Elected Member Representative Report to Audit Committee Report Reference: AC151215R6.1

Councillor Telfer spoke to the report drawing the Committee's attention to the following points:

- The Council has been working its way through the 30 Year Plan and its short term goals and issues. An Elected Member Forum is planned for the 16th January 2016 with strategic planning and priority setting being a key focus.
- Council has agreed to use the quarterly review process to progress new and unfunded items to ensure that an appropriate prioritisation and approval process is considered and applied.

The Committee advised that the challenge for the Elected Members will be what to say 'no' to. The CEO confirmed that it will be important for the council to establish a plan (potentially a three year plan in the first instance) to assist the progress of strategic priorities.

Councillor Gard agreed with the comments provided by Councillor Telfer and also contributed that further work is required to connect the Asset Management Plans with budget planning for the short, medium and long term. He suggested that the budget process can be complex and it can be difficult to connect budget with outcomes.

The Committee queried if Council had progressed any further in its decision making regarding the vacant land at the City Services site. Councillor Telfer advised that there was no agreement or further decision at this point. A discussion will be held at the 16th January 2016 Forum regarding surplus assets and the opportunities for asset consolidation and/or disposal. The Audit Committee requested an update be provided by June 2016.

ACTION: that the Audit Committee be provided with an update by June 2016 regarding the progress of surplus assets (particularly the status of the land at City Services).

7. REPORTS

Corporate and Financial Management

7.1 Finance & Audit Committee Work Program & Meeting Schedule for 2016 Reference No: AC151215R7.1

The Committee noted the report and agreed that the proposed work program covered the requirements of the Committee's Terms of Reference. It was noted that internal audit and service reviews were now listed separately on the work program.

The Committee requested that the risk profile work noted on page 134 of the agenda be added to the work program. It was advised that this work will be presented in the Corporate Risk Profile at the meeting in March 2016.

The Committee discussed the meeting dates noting that the October and December Meetings required change.

Moved Ms Presser, Seconded Councillor Gard that the Finance and Audit Committee:

1. **Note the proposed work program for 2016 identified at Appendix 1 to the report.**

2. Adopts the following schedule of meetings for 2016;

- a) TUESDAY, 8 March 2016 (2.00 – 5.00 pm)
- b) TUESDAY, 31 May 2016 (2.00 – 5.00 pm)
- c) TUESDAY, 16 August 2016 (4.00 – 6.00 pm, followed by joint workshop with Council from 7.00 – 9.00 pm)
- d) TUESDAY, 4 October 2016 (2.00 – 5.00 pm)
- e) TUESDAY 6 December 2016 (2.00 – 5.00 pm)

Carried Unanimously

ACTION: the Committee requested that meeting invitations be sent to all Committee Members for the 2016 meeting schedule.

**7.2 Ombudsman's Annual Report 14/15
Report Reference: AC151215R07.2**

The Manager Corporate Governance provided an overview of the report noting that the number of complaints referred back to the Council from the Ombudsman had increased as the Ombudsman's Office had altered its process to allow Councils the opportunity to address complaints in the first instance.

The Committee queried why some complaints were not listed in Council's record management system and it was clarified that in some instances where a complainant had gone directly to the Ombudsman and been advised to liaise direct with council, the complainant did not always follow up with Council, hence there were no records on the Council's system.

The Committee noted the report and recognised that complaints referred to the Council from the Ombudsman are followed up to ensure any relevant actions have been completed.

**7.3 Framework and Key Assumptions for the preparation of the 2016/17 ABP&B and Long Term Financial Plan
Report Reference: AC151215R7.3**

The Manager Finance provided an overview of the framework and key assumptions for the Annual Business Plan and Budget (ABP&B) 2016/17 and Long Term Financial Plan (LTFP) noting that the Committee last reviewed this in April 2015. The main differences between the 2015/16 and 2016/17 frameworks were listed on page 33 of the agenda. The key risks were listed on page 35 of the agenda.

The Committee queried the proposed change in the Operating Surplus ratio target from 0-5% to 0-6%. The Committee was advised that the proposed change was made to align the KPI to that adopted by Council in its 2015/16 ABP&B. It was noted that the current KPI was sitting at 9% primarily as a result of substantial forecast gross operational savings of \$3.2m being identified in the development of the 2015/16 ABP&B.

Further discussion was held in regards to the size of the operating surplus, which currently exceeds the Council endorsed KPI and it was agreed that it would be useful for an appropriate explanation to be provided in the ABP&B documentation clarifying this. As noted "above" for example the current year KPI for the Operating Surplus Ratio was exceeded in Council's adopted ABP&B primarily as a result of substantial forecast operating expenditure savings being identified in the development of the ABP&B.

Discussion was also held in regards to the applicable residential rate in the dollar for the City of Marion as compared with other Councils. The City of Marion residential rate in the dollar is higher than surrounding Councils and therefore it would be useful to explore and understand this further as part of the 2016/17 ABP&B process.

The General Manager Corporate Services advised that budgeted rate revenue is calculated through a formula which considers two key variables being (1) the required total rate revenue and (2) property values provided by the Valuer General. The rate in the dollar is the resultant figure derived from this process and therefore these 2 key variables and the various differing factors that exist from one council to the next need to be considered in this process. Councillor Gard advised the Committee of the differences that occur from Council to Council, particularly within the City of Holdfast Bay and the City of Marion. For example, Marino residents with the same or similar property values will pay significantly less rates in Holdfast Bay than Marion, when they reside in the same suburb. Councillor Gard suggested that the rating system is archaic, complex and requires reform. As a result the average resident does not understand the system.

The Committee agreed that there is opportunity within the pending ABP&B process to explore this issue further with Elected Members, in order to provide a greater level of clarity and understanding in this area. It was proposed that as part of the ABP&B process a number of scenarios could be considered looking at the differential rates that apply to different land use codes (ie. commercial, residential, industrial, etc).

The Committee queried what percentage of rate revenue was derived from commercial properties within the Cities of Marion and Holdfast Bay. The Manager Finance advised that within City of Marion it is about 15 percent and would follow up the details for the City of Holdfast Bay.

ACTION: provide the Committee with the percentage of rate revenue derived from commercial properties for the Cities of Marion and Holdfast Bay.

Councillor Telfer advised the Committee that service delivery had been topical amongst Elected Members and that the Council was seeking some assurance from management that service levels would not be impacted and reduced as a result of the ABP&B for 2016/17.

The CEO confirmed that service levels would be consistent with the agreed plan but may be impacted by service reviews and the assumptions within the LTFP.

The Committee made the following final comments regarding the AB&B and LTFP:

- The wording on page 33 that suggests “council only considers new major projects where it has the identified funding capacity to do so” should be altered to read “ council only approve new major projects....” Council should be able to consider a wide variety of matters and this amendment will facilitate this.
- It is important for the risks outlined on page 35 to be considered by Council, which are well encapsulated in the report. For example, the employee costs/increases within the current Enterprise Agreement are above the current assumptions within the LTFP. This is a difficult position for management. The new agreements will need to be negotiated based on the current employment market.
- The provision of key financial ratios, such as Interest and Debt, would be useful in future reports.

With the consideration of the above feedback, the Committee recommended that the framework for the 2016/17 ABP&B and LTFP be presented to Council for consideration and adoption.

ACTION: that the framework for the 2016/17 ABP&B and LTFP be presented to Council for consideration and adoption.

The Chair sought leave of meeting to alter the agenda to allow for those items to be considered that related to the Internal Audit. The Committee agreed.

Service Reviews and Internal Audit

4.00 pm Mr Justin Jaimison and Jared Lawrence from KPMG entered the meeting.

7.7 Draft Internal Audit Plan 2015/16 – 2016/17 Reference No: AC151215R7.7

Mr Jaminson (Audit Partner) from KPMG provided an overview of the Internal Audit Plan for 2015/16 to 2016/17 indicating that this will be the lead document to drive the internal audit program for the next two years. Mr Jaimison indicated that the following process was undertaken to develop the two year plan:

- Consultation with key stakeholders throughout the organisation including ELT, Manager Corporate Governance, Risk and Finance.
- Review and understanding of the City of Marion Community Plan, Annual Business Plan, Long Term Financial Plan, Asset Management Plan and other core documents.
- Review of the City of Marion Strategic Risk Register.

The Committee noted that the Plan focused on a back to basics approach with a mix of some strategic reviews. Mr Jaimison confirmed that the balance of core assurance reviews and strategic reviews was an important balance. The back to basics approach will address matters such as fraud exposure and process breakdown. The Plan is developed for flexibility and reviews can be moved around depending on resources and priorities.

The Committee queried the timing of some reviews (i.e. land and property review) and it was noted that the internal audit will review the implementation and operations of the system improvements that are being implemented now. The land and property internal audit review is included on the program in 2017 for this purpose.

The Committee noted that KPMG could assist Council with independent advice regarding strategic objectives if required.

The Committee noted the Plan had been developed through a considered process and agreed it was a solid approach.

7.8 Internal Audit Scopes Report Reference: AC151215R7.8

The Committee noted the four (4) scope documents within the report and made the following comments:

- No comment was made from the Committee regarding the scope for the development of the Internal Audit Plan.
- The Committee sought assurance that the Payroll Audit was comprehensive and queried if there was any opportunity within the Payroll Audit to look at cost sharing. It was confirmed that this was out of scope for this review as it would be focused on the payroll processes and internal control environment. It was suggested that this could be considered as part of a further service review.
- The Committee noted that the Capital Works audit will focus on the current issues associated with carryovers and the capital works program. The audit will focus on planning and delivery and assess Council's process. The Committee suggested that there may be an opportunity to look at contingency management and procurement at a

program level rather than at a project level. The Committee also suggested that it was important that this audit looks at the efficiency and effectiveness of capital works programs.

- The Committee suggested that it would be useful if the internal audit on purchase cards was looked at holistically and addressed issues such as the use of credit cards versus accounts/invoice payment (i.e. the risks and resources required for both systems of purchasing). A recommendation of the best method for the business would be helpful within this review.

In addition discussion was held in regards to the appropriate timing for the planned IT Security audit proposed for early 2017 and it was agreed that this should not occur until after the pending Lotus Notes Replacement program has been finalised.

4.27 pm Mr Jaimison and Mr Lawrence left the meeting.

4.27 pm The Presiding Member adjourned the meeting for a short 5 minute break.

4.33 pm The Meeting resumed.

7.9 Service Review Update **Reference No: AC151215R7.9**

Mr Owens declared that he had worked closely with Kaurna in alternative employment. He did not consider this to be a conflict of interest but requested it be recorded in the minutes.

The Committee noted that the Hard Rubbish Service Review and Community Facilities (Living Kaurna Cultural Centre (LKCC)) Service Review were selected as the first two reviews to be completed in a survey completed by Elected Members. The Hard Rubbish Service Review was progressing well and with the intent to report this to the Committee in March 2016.

The Committee noted the scope of the LKCC Service Review and the review will focus on the cost benefit and community value in the first instances. At the conclusion of the first phase and a decision point will occur regarding where to from here regarding the service delivery model for the site.

Councillor Telfer requested that Fairford House be included within the scope of the review and this was agreed.

Councillor Telfer also sought clarification regarding lot 707 which is owned by the Indigenous Land Corporation (ILC) and suggested it may be useful to explore in the second phase of the review how the LKCC could complement any development at this location.

The Committee was advised of and noted progress on both reviews.

7.4 Asset Management Plan **Report Reference: AC151215R7.4**

The Committee noted that the Asset Management Plans (AMPs) had been presented to the Committee earlier in the year and were now being brought back after community consultation.

The Committee noted that two responses were received within the community consultation period. The Committee was of the opinion that the current AMPs were the foundation to develop more definitive AMPs and the current AMPs should be considered “a plan for a plan”.

It was noted that the information from the buildings and facilities review will need to be built into the AMPs. The AMPs will also need to link to other organisational plans and a three (3) year plan may be appropriate to assist at an operational level.

The Committee noted that at the Elected Member Forum in January 2016, the council would be considering surplus assets and the opportunities for potential asset disposal and/or consolidation.

Councilor Gard sought clarification as to how Council funds new/enhanced assets (i.e. such as footpath redevelopment and streetscapes) that are above the existing asset service standards and if these items would be considered as new under Council's Asset Management Policy.

The General Manager Corporate Services confirmed that the current AMP's are based on the Asset Management Policy that requires a like for like renewal of existing assets. If an item is a new or enhanced asset, it would require a separate prioritisation and approval process and then be imbedded into the AMPs.

In summary, the Committee emphasised that the AMPs are based on the premise of like for like renewal which is articulated within the Plan. The AMPs reflect a good piece of work but require on-going review to ensure they continue to develop further into better informed and accurate operational AMPs.

The Committee recommended that the AMPs be forwarded to Council for adoption.

ACTION: That the Asset Management Plans be presented to Council for consideration and adoption.

Risk Management

7.5 Risk Management Policy and Framework Review Reference No: AC151215R7.5

The Committee noted the comprehensive documents and agreed that the Framework and Policy provided rigor for the Council and its risk management practices. The Committee suggested that regular review is required and monitoring of risk treatments is critical.

The Manager Corporate Governance provided an overview regarding how risks are monitored throughout the organisation. This includes the review of operational risk reviews (annual) with the risks identified as high or extreme (outside of risk tolerance) to be monitored by the Risk Working Group (Bi-monthly) and the emerging and extreme risks monitored by ELT on a fortnightly basis.

The Committee made the following points for consideration:

- The overall responsibility for risk rests with the Council. The Committee should be used as a filter. The roles and responsibilities within the framework should reflect this.
- The measurement of effective treatments is critical and should be further embedded into the framework.
- Consideration should be given for the CEO to create a top 5 risk report that is considered on a regular basis.
- Further exploration of the Council's media monitoring could occur to review how it could assist in managing emerging risks.
- It was acknowledged that the definition of a risk within the Framework is from the Internal Risk Management Standards (31000:2009) and if Council wants to measure against the standards it would be best practice to refer to the definition within the standards. Notwithstanding this, the key element of a rigorous framework is the application of the process. It was suggested that the definition of a risk could be misleading and it was queried if there is opportunity to look at a different definition and change the word "uncertainty".

- The terminology of “risk appetite” to be amended to “risk tolerance”.

With the consideration of the above, the Committee recommended that the Risk Management Policy and Framework be presented to Council for consideration and adoption.

ACTION: That the Risk Management Policy and Framework be presented to Council for consideration and adoption.

7.6 Local Government Association Mutual Liability Scheme (LGA MLS) Annual Risk Review 2015
Reference No: AC151215R7.6

The Committee noted the report, action plan and the rebate of \$41k. It was noted that the LGA MLS will be changing the review methodology in 2016.

The Committee queried the status of items 4.20 and 7.36 with the action plan and noted the following:

- 4.20 :The new section 41 Committee structure is required to be reported to the LGA MLS who will provide cover for any liability arising from the actions of any of the Section 41 Committees.
- 7.36 The railway Interface Guide is currently being worked through with Council staff and the LGA MLS.

The Committee queried what claims contribute to the Administration claims category representing 59% of the ‘types of claims based on cost’. This was taken on notice and will be reported through the actions arising statement.

ACTION: provide further detail regarding what is included within the 59% Administration Claims on page 142 of the agenda.

8. CONFIDENTIAL ITEMS

Nil

9. ANY OTHER BUSINESS

The new section 41 Committees of Council were noted and the Committee recommended that the operations of these Committees be reviewed during 2016. It was noted that Council resolved to review the Committees at the conclusion of 2016.

10. MEETING CLOSURE

The meeting was declared closed at 5.22 pm

11. NEXT MEETING

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

Time: 2 pm – 5 pm

Date: 8 March 2016

**Venue: City of Marion Council Chambers
245 Sturt Road, Sturt**

.....
CHAIRPERSON

/ /