

**MINUTES OF THE FINANCE AND AUDIT COMMITTEE MEETING  
HELD AT THE ADMINISTRATION CENTRE  
245 STURT ROAD, STURT  
ON TUESDAY 16 AUGUST 2016**



**PRESENT**

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

**In Attendance**

Mr Adrian Skull	Chief Executive Officer
Mr Vincent Mifsud	General Manager Corporate Services
Ms Abby Dickson	General Manager City Development
Mr Tony Lines	General Manager Operations
Ms Kate McKenzie	Manager Corporate Governance
Mr Ray Barnwell	Manager Finance
Ms Fiona Harvey	Manager Innovation and Strategy
Ms Sherie Walzac	Unit Manager Risk
Mr Colin Heath	Manager Contracts and Operational Support
Ms Deborah Horton	Unit Manager Performance & Improvement
Mr Justin Jamieson	KPMG (for item 7.7 and 8.1)
Mr Jared Lawrence	KPMG (for item 7.7 and 8.1)

**1. OPEN MEETING**

The meeting commenced at 4.02 pm. The Chair welcomed all those present to the meeting.

**2. KAURNA ACKNOWLEDGEMENT**

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

**3. MEMBERS DECLARATION OF INTEREST**

The Chair asked if any Member wished to disclose an interest in relation to any item being considered at the meeting. No interests were disclosed.

**4. CONFIRMATION OF MINUTES**

**4.1 Confirmation of Minutes for the Special Finance and Audit Committee held 20 June 2016**

**Report Reference: FAC160816R4.1**

**Moved Councillor Telfer, Seconded Mr Owens** that the minutes of the Special Finance and Audit Committee meeting held on 20 June 2016 are confirmed as a true and correct record of proceedings.

**Carried Unanimously**

## **5. BUSINESS ARISING**

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

#### **Report Reference: FAC160816R5.1**

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

The Committee sought further clarity on the following matters:

- Project Management Review

The Committee noted that the work was not difficult to deliver but the delay had occurred due to competing priorities. The purpose of the Project Management review is to set a high level framework to be applied to strategic and major projects. The Committee suggested that a project register be developed that would assist Council and Management to understand the impact of new projects on resources and delivery.

- Financial Modelling tool

The Committee noted that research had taken place and potential software had been identified as a solution. The Manager Finance was currently discussing upfront and on-going costs with the Executive Leadership Team as the software does have an annual licensing fee. This will be further progressed with the development of the 2017/18 Annual Business Plan and Budget. The committee reemphasised its belief that such a tool would be invaluable in financial decision making

- Business Continuity Plan (BCP)

The Committee noted that work had progressed on the BCP and this document was now in draft. Consultation would occur with internal stakeholders and the draft BCP would be presented to the next Committee Meeting in October for comment.

## **6. ELECTED MEMBER REPORT**

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

#### **Report Reference: FAC160816R6.1**

Councillor Telfer provided an overview on the report noting that Elected Members had also participated in a number of Elected Member Forums that are not listed within the report. Councillor Telfer informed the Committee that the Federal elections had delivered to Council a number of economic promises including a \$4m contribution towards the Edwardstown Sports and Community Centre redevelopment, the promise of the delivery of the Flinders rail link, a \$40m contribution towards the delivery of the Oaklands Rail Crossing traffic solution, contribution to the Warradale Tennis Courts and installation of solar panels on Marino Hall.

Councillor Telfer advised the Committee that changes were being proposed to the National Stronger Regions Fund suggesting that this will be a fund for the regions only and not the metropolitan areas. Council has therefore not received any outcome from the round 3 application for Mitchell Park Sports and Community and has not been able to apply for any further grant funding at this point.

Councillor Telfer highlighted that Council had made two decisions regarding its Membership with the LGA noting that it was important for Council to understand the financial impacts of any decision. The Committee requested that they be kept informed of significant decisions such as the LGA decision that may create (or perceive to create) a risk for the organisation.

The Committee sought clarity on Council's rate rise, noting that Council had reduced its rate increase from 2.75% to 2.5% in the ABP and LTFP.

## **7. REPORTS**

### **Corporate & Financial Management**

#### **7.1 4.18 pm Valuations of Buildings and Assets**

##### **Reference No: FAC160816R7.1**

The Manager Innovation and Strategy provided an overview of the report noting the asset valuation process was now complete. The Committee noted that the Australian Accounting Standards (AASB116) had been revised and these legislative requirements have been embedded as part of the valuation process for 2015/16. The main impact of these changes relates to depreciating an asset component that was not previously depreciated and a higher depreciation provision will now have to be recognised from 2016/17 onwards.

The Manager Finance advised that Council's approach in applying the revised standard had been discussed and agreed with the external auditors and to be fully compliant with the new standard our asset valuations had to apply the strict definition regarding residual value, being the future 'sale price' of an asset. This meant that where in the past Council could apply a residual value to materials salvaged in the reconstruction of roads as an example, we are no longer able to apply a residual value as no financial consideration is received. The removal of previously recognised residual values means that the accounting estimates for depreciation for those assets, particularly infrastructure assets such as roads, will result in higher depreciation provisions required from 2016/17 onwards. It was noted that this will have no impact on funding as this is the revision of an accounting estimate and funding requirements for the renewal of existing assets is driven from Council's Asset Management Plans.

The Committee noted that some additional assets had been identified such as stormwater drainage and retaining walls. It was noted that Council had a back log of asset inspections that it was working through and as a result of this process had identified some new assets (i.e. drainage had been identified through CCTV inspections). It was noted that the new assets now recorded on our asset register have been captured and depreciated in the 2015/16 asset valuation process.

#### **7.2 4.25 pm Treasury Management and Reserve Funds Policy**

##### **Reference No: FAC160816R7.2**

The Committee noted the policies and suggested that they would benefit from being more prescriptive and provide further clarity.

In regards to the Treasury Management Policy it was suggested that it would be useful to provide investment parameters and guidelines, including things such as the type of financial institutions that the Council would invest with to ensure a sound financial approach.

The Committee noted that Council's financial investments are primarily held with the Local Government Finance Authority (LGFA), which is a State Government guaranteed entity, and Council would only consider using the major banks if they can provide a competitive rate that equates to a 0.25 percentage margin or better than the LGFA.

The General Manager Corporate Services advised that there are a number of additional processes that are undertaken that are not articulated within the policy and that these will be appropriately articulated in the next iteration of the policy.

The Committee suggested that the development of criteria to guide the use and limitations of the Reserve Funds Policy would be useful. This would provide further clarity and transparency regarding why funds are being placed into this reserve and how Council intends to spend these funds.

The Committee also noted that a large body of work had been undertaken on the Council's carryovers and these have been considerably reduced on the previous year. The Committee commented that the carryovers should be accounted for in a separate reserve and not included in general revenue and it was confirmed that this is the case.

**Action: Management welcomed any feedback to strengthen the policies and requested the Committee email any example of policies they may have used or seen in other industries.**

**Action: The Committee requested that further work be undertaken on the Reserve Funds Policy and Treasury Management Policy and they be presented to the next Committee meeting for consideration. Any updates can be included as part of the 2017/18 Annual Business Plan and LTFP process.**

The Chair amended the order of the agenda and brought forward the internal audit items.

#### **7.8 4.33 pm Internal Audit Program Reference No: FAC160816R7.8**

Mr Justin Jamieson and Jared Lawrence from KPMG entered the meeting.

Mr Lawrence provided an overview of the report noting that the internal audit plan was progressing well.

The Committee noted the report and requested that the progress of any major internal audit findings is reported separately.

It was noted that the People, Leadership and Culture review would not be progressing within the internal audit plan as a different type of consultancy/review was needed.

The Committee then moved into confidence to discuss the Cash Handling Review.

**Moved Councillor Telfer, Seconded Mr Owens** that pursuant to Section 90(2) and (3)(e) of the *Local Government Act 1999*, the Finance and Audit Committee orders that all persons present, with the exception of the following Adrian Skull, Vincent Mifsud, Abby Dickson, Tony Lines, Kate McKenzie and Ray Barnwell be excluded from the meeting as the Committee receives and considers information relating to the Cash Handling Internal Audit Review which is attached in appendix 1 of this report, upon the basis that the 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 security matters of the Council.

**Carried Unanimously**

#### **4.39 the meeting went into confidence**

**Moved Ms Presser, Seconded Councillor Telfer** that in accordance with Section 91(7) and (9) of the *Local Government Act 1999* the Finance and Audit Committee orders that Appendix 1 – Cash Handling Internal Audit Review and the minutes arising from this appendix having been considered in confidence under Section 90(2) and (3)(e) of the Act shall, 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 General Council Meeting in December 2016.

**Carried Unanimously**

**4.50pm the meeting came out of confidence**

**8. CONFIDENTIAL ITEM**

**8.1 4.50 pm Meeting with Internal Auditors in Camera  
Reference No: FAC160816F01**

**Moved Ms Presser, Seconded Councillor Telfer** that pursuant to Section 90(2) and (3)(e) of the *Local Government Act 1999*, the Finance and Audit Committee orders that all persons present be excluded from the meeting as the Committee meets with the Council's Internal Auditors, in order to ensure that the Council does not breach any law, order or direction of a court or tribunal by law, any duty of confidence or other legal obligation or duty.

**Carried Unanimously**

**4.50 pm all management present left the meeting**

The independent and elected members of the Audit Committee met in Camera with the Internal Auditors (Justin Jamieson and Jared Lawrence from KPMG). The Auditors indicated that they were most impressed with the support and engagement provided by the Administration. They have not experienced any issues in terms of the timeliness and quality of information provided. Furthermore, they have been impressed with the application of management to embrace results and implement recommendations in a timely manner.

**4.57pm the meeting came out of confidence and management re-entered the meeting.**

**7.3 4.58 pm External Audit Tender  
Reference No: FAC160816R7.3**

The Committee noted the report and the timetable provided. The Committee made the following suggestion for consideration:

- Reducing the number of companies to approach in the select tender to four or five. Nine may be too many.
- Including one of the FAC Members as part of the tender evaluation process. This may add a further level of independence and scrutiny.
- Test the market for the type of contract term and what would be best for the organisation. i.e. 5 year fixed term fixed price contract or a 3 year plus two years fixed price contract. Providing a flexible approach during the tender will produce the best outcome from the market.

The Committee noted that KPMG are not included on the list as they are the current internal auditors. The Committee noted that the internal audit contract is a two year plus two-year contract, with the first two years expiring in June 2017. The Committee requested that a report on this contract be provided to the December 2016 meeting.

**ACTION – that a report be presented to the December Committee meeting regarding the Internal Audit Contract for 2017/18 and beyond.**

**7.4 5.05 pm Procurement and Contract Management Policy**  
**Reference No: FAC160816R7.4**

The General Manager Corporate Services provided an overview of the report and noted that comments had been provided by the Mayor outside of the meeting. It was highlighted that:

- Item 6.1 of the Procurement Procedure states City of Marion will utilise various agreements/contract types to formally engage contractors, including collaborative purchasing contracts (e.g. Council Solutions, LGA Procurement, Procurement Australia, State Government).
- City of Marion will ensure that the market is tested on all expired contracts to ensure that appropriate procurement protocols are adhered to and best value is achieved for the community.

The Committee provided the followings comments for consideration:

- Section 4.1 was confusing as it wasn't clear if the market would be tested before or after approval of budget. It was noted that the appropriate budget would need to be approved by Council prior to going to tender on any contract. This process is usually done through the Annual Business Plan and Budget process. A further Council decision would be required if the contract could not be let under the approved budget. The Committee suggested that this could be clearer within the Policy.
- Further refinement of the policy statement was required as the role of the Elected Member should be at a strategy and Policy level, rather than operations of procurement.
- The Policy should be clear on the delegated authority within the organisation and that decision making should sit within these parameters.
- Probity, Accountability and Transparency should form a separate heading as 4.6 within the Policy.
- 4.9 within the Policy is a good paragraph and is being encouraged within Local Government but should be used where appropriate and not as a matter of course.
- The inclusion of the Work Health Safety for contractors is an excellent inclusion. This is not only about the selection of the contractor but should be measured through their on-going performance. It must be connected to Council's WHS systems.

The Committee suggested that it may be useful to see a marked up version on the Policy before it is finalised and presented to Council.

**ACTION – the Committee requested that a marked-up version of the Policy be circulated to the Committee.**

**7.5 5.18 pm Result of the Bi-Annual Performance and Effectiveness Review of the Finance and Audit Committee**  
**Reference No: FAC160816R7.5**

The Committee noted the report and the results of the review. The Committee suggested that an improvement plan could be developed based on the following components:

- Improving the communication loop between Council and the Committee. Important decisions made by Council should be provided to the Committee in between meetings. For example, the rate reduction from 2.75% to 2.5% would be useful information to the Committee to know at the time of the decision.
- Further information regarding efficiency and benchmarking. The Committee did note that this information would start coming through with the Service Review Program.
- Advice on significant risks and changes in the risk environment. For example, the LGA membership decision could have been tested through the Committee to assist and support Council in their decision making.
- Notification to the Committee on major media issues.

The Committee requested that a further report be brought to the next meeting addressing the above issues and any other opportunities highlighted in the performance and effectiveness review.

**ACTION – that an Improvement Plan be developed and presented to the next meeting.**

### **Risk Management**

#### **7.6 5.25 pm Insurance Claims Management Activity Report Reference No: FAC160816R7.6**

The Unit Manager Risk provided an overview of the report noting that a reduction of incidents and claims had been recorded within the 2015/16 financial year. It was noted that many incidents were outside of the control of the Council. For example, some incidents related to vandalism occurring to new infrastructure. These incidents had been investigated and further mitigation strategies have been implemented and resolved the issues. The Committee noted that the organisation should be learning from these incidents to ensure that they are not repeated in other matters.

The Committee noted that it was a good report and requested that the effectiveness of treatments within the risk matrix continue to be monitored appropriately. It was noted that the claim regarding the fibre optic cable was an uninsured asset at the time of the incident and this has now been insured accordingly. Council is progressing with cost recovery from the contractor who damaged the cable.

The Committee also sought clarity regarding open space such as the skate park and what liability attached to Council from personal injuries sustained. It was noted that the skate park was designed in accordance with Australian Standards and was reviewed by our insurer prior to hand over. The test for any personal injury sustained would be that Council had failed in its duty of care at common law and was negligent in its design and management of the skate park. Such open space projects are designed and constructed in accordance with appropriate Australian Standards which significantly mitigate Council's risk exposure.

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

#### **7.7 5.34 pm Service Review Program Reference No: FAC160816R7.7**

The Chief Executive Officer provided a short presentation to the Committee highlighting a number of achievements that have occurred in connection with business improvement

initiatives over the past two years. He acknowledged that the Service Review Program was a priority for Council and that all Councils are undertaking service reviews but with varying degrees of success.

It was highlighted that the Council has achieved \$3.2m in savings over the past two financial years, with the restructure implemented in late 2015 saving Council \$447k in salaries, the focus on carry overs has achieved an approximate 51% reduction (\$8.6m to \$4.2m) but there are still improvements to be made.

The Chief Executive Officer also highlighted that a number of new initiatives were progressing which included a legal services review, Erica Comrie from Council Solutions would be undertaking a 12-week pilot program with City of Marion to seek efficiencies and improvement, the southern Councils CEO's are working closely together looking for opportunities with streamlined services.

The CEO stated that the Improvement and Performance Team was established in February 2016 and during this period they had developed the Service Review Framework, tools and undertaken the stage 1 reviews across the whole organisation.

It was noted that some Elected Members had expressed frustration with the timing and delivery to date of the Service Review Program.

It was noted that the services reviews do vary based on the scope. For example, the Hard Rubbish and LKCC services review reports were both very fulsome, whilst the Learning Festival was much smaller in scale.

The following comments were noted during the discussion on the service review program:

- The process undertaken to date demonstrates a very fulsome and comprehensive piece of work and assisted to create a priority list for the service review program.
- There is value in the methodology, including the utilisation of managers to undertake the reviews.
- Undertaking a service review on all 131 services is not achievable and over ambitious. The Council should focus on the reviews that will add the most value. Consider using the 80/20 rule. There is a need to ensure a focus on the highest priorities – prioritisation is critical. This should include an annual refinement of the tool with a continuing focus on the highest priorities to ensure a realistic achievable program is in place.
- The right number of reviews per year is the challenge for the organisation as it will only be able to manage a certain number based on other priorities and demands. For example, if the projects relating to the section 48 prudential reports come to fruition, this will be a significant impact on organisational resources which Council needs to be cognisant of.
- It should be noted that when a review is finished, it is not the end but the beginning of the implementation process.
- The approach suggested by management is sound. The program is now at the stage of a decision point where Elected Members need to contribute and provide input to the prioritisation list.
- Service reviews will explore opportunities and efficiencies.
- The stage 1 reviews have produced a new data set that has not been collected before. This will evolve over time and does require some fine tuning. The stage 1 reviews provide one lens for prioritisation. Other considerations such as strategic alignment and budget considerations need to be taken into account when establishing final priorities.

- The report is comprehensive but is confusing in parts. It is not clear how the original 19 reviews that the stage 1 reviews identified have then been translated to 12 prioritised reviews for the first 12 months of the program.

The Committee queried what the 'profile of the service' means and how this was calculated. The Unit Manager Performance and Improvement advised that the higher the score of the profile of the service, the more likely it was rated as a priority 1 in quadrant D. For example, the elements that contributed to high ratings included but were not limited to:

- If the service was rated as no impact if the service was not fulfilled or very high impact if the service was not fulfilled.
- If it was not known who used the service or if only a localised group used the service.
- If the service has no service standards.
- If managers responded 'don't know'.
- If more than 5 departments were involved in providing the service.
- If budget details were not provided.
- If there was a large increase or decrease in the budget for the service.
- If the service was not included in the Long Term Financial Plan.
- If more than 10 FTE were required to deliver the service.

The Committee noted the comments provided and suggested that further discussion be held in the joint workshop with Elected Members.

## **9. ANY OTHER BUSINESS**

Nil

## **10. MEETING CLOSURE**

The meeting was declared closed at 6.04 pm

## **11. NEXT MEETING**

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

**Time: 2.00 pm – 5.00 pm**

**Date: Tuesday - 4 October 2016**

**Venue: Chamber, Administration Building**

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**CHAIRPERSON**

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