

FAC200225 - FINANCE AND AUDIT COMMITTEE MEETING

Tuesday, 25 February 2020 at 02:00 PM

Council Administration Centre, 245 Sturt Road, Sturt



IN ATTENDANCE

Mrs Emma Hinchey (Chair), Ms Natalie Johnston, Mr David Papa and Councillor Tim Gard

In Attendance

Mr Adrian Skull	Chief Executive Officer
Ms Sorana Dinmore	General Manager, Corporate Services
Ms Illa Houridis	General Manager City Development
Mr Ray Barnwell	Manager Finance
Ms Kate McKenzie	Manager Corporate Governance
Mr Akos Szonyi	Manager Digital Transformation and Information Technology
Mr Phil Mattingly	Service Delivery and Infrastructure, Unit Manager ICT
Mr Greg Salmon	Manager City Activation
Ms Carla Zubb	Project Manager Strategic Projects
Mr Andrew Doyle	Unit Manager Statutory Finance & Payroll
Mr David Harman	Unit Manager Statutory Finance & Payroll
Ms Sherie Walzcak	Unit Manager Risk
Ms Karen Peake	Risk Coordinator
Ms Jaimie Thwaites	Unit Manager Governance & Council Support
Mr Eric Beere	KPMG
Ms Heather Martens	KPMG
Mr Andrew Noble	BRM
Mr Michael Richardson	BRM

OPEN MEETING

The Chair opened the meeting at 02:00 PM

KAURNA ACKNOWLEDGEMENT

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

COMMITTEE MEMBERS DECLARATION (if any)

Ms Johnston declared a perceived conflict of interest in the item Disclosure Incident (FAC200225F01) as she is employed by Ernst and Young.

CONFIRMATION OF MINUTES

Confirmation of the minutes for the Finance and Audit Committee Meeting held on 10 December 2019

Report Reference: FAC200225R01

Moved Councillor Gard, Seconded Ms Johnston

That the minutes arising from the Finance and Audit Committee Meeting held on 10 December 2019 be taken as read and confirmed with the following amendments:

- Page 2 (*Open Meeting* item) - the Chair opened the meeting
- Page 4 (*Elected Member Report* item) - third line of the first paragraph insert "a sector of" before "the community"
- Page 4 (*Cross Council Service Review – Report – Utilities Management* item) – second paragraph remove the apostrophe from the word "Council's".

Carried Unanimously

BUSINESS ARISING

Business Arising Statement

Report Reference: FAC200225R02

The Manager Finance provided a verbal update on the overdue Rates debtors and advised that the annual report on Rates and Other Debtors will be provided in the October meeting.

The Committee noted the Business Arising Statement and actions completed.

Action: The 'Secondment management roles and responsibilities' document relating to sharing human resources across Councils be reported to the next Committee meeting.

CONFIDENTIAL ITEMS

Disclosure Incident

Report Reference: FAC200225F01

Ms Johnston declared a perceived conflict of interest in the item as she is employed by Ernst and Young. The investigation work was carried out by the Sydney office and she had no involvement in the matter. She declared that she would remain for the item.

Moved Councillor Gard, Seconded Ms Johnston

That Pursuant to Section 90(2) and (3)(h) 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, Sorana Dinmore, Tony Lines, Iliia Houridis, Kate McKenzie, Phil Mattingly, Akos Szonyi and Jaimie Thwaites, be excluded from the meeting as the Committee receives and considers legal advice relating to a 'disclosure incident' 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.

Carried Unanimously

2.09pm the meeting went into confidence

Moved Mr Papa, Seconded Councillor Gard

That the Finance and Audit Committee:

1. In accordance with Section 91(7) and (9) of the Local Government Act 1999, the Committee orders that this report (Disclosure Incident), the Appendix, and the minutes arising from this report having been considered in confidence under Section 90(2) and (3)(h) of the Act, except when required to effect or comply with the Committee's resolution(s) regarding this matter, be kept confidential and not available for public inspection. This confidentiality order will be reviewed at the General Council Meeting in December 2020.

Carried Unanimously

2.38pm the meeting came out of confidence

REPORTS FOR DISCUSSION

Elected Member Report

Report Reference: FAC200225R03

The Committee noted the report.

The Committee queried whether there were lessons to be learned from the process of reviewing the financial accounts of Council Leaseholders and Partners however Management advised that the Edwardstown Soldiers Memorial Community Club had not been operational for 12 months and therefore Council had never before reviewed their financial statements. Councillor Gard noted that the Edwardstown Soldiers Memorial Community Club item had highlighted that the management model was academically sound but that it was not an exact science.

SWBMX Facility - Prudential Report

Report Reference: FAC200225R04

The Committee noted the following comments in relation to the SWBMX Facility – Prudential Report:

- City of Onkaparinga has a Council resolution to support the project and to contribute 50% of the ongoing maintenance funding.
- Various sites were investigated in Cities of Onkaparinga and Marion. The Majors Road site was considered the preferred location.
- A funding deed is currently in the processes of being drafted between the Cities of Marion and Onkaparinga for the capital and ongoing share of maintenance funding.
- Recommend that the term of the lease with the Department of Environment and Water (DEW) for the land is in line with the life of the asset (i.e. 25 years)

- Development approval could take about 9 weeks
- It was confirmed that Council does have adequate resources to deliver the SWBMX Facility and Southern Football Facility at the same time. It would be project managed like a precinct development.
- There are procurement advantages from delivering the two projects at once.
- Although this is a significant investment into a specific sport, Council does have a broad investment strategy covering different aspects of sports, arts and community facilities. The delivery of this particular project is not happening at the exclusion of other sports.
- Current variables include the shortfall in funding, no current signed lease and subject to development approval.
- It will be important for it to be clear who owns and manages the risks once the site goes live.

Action: that the future operational risks that have been identified are captured in some way to ensure that they are not lost after construction of the project.

Moved Councillor Gard, Seconded Ms Johnston

That the Finance and Audit Committee:

1. Notes that the Section 48 Prudential Report addresses requirements under the *Local Government Act 1999*.
2. Endorses the draft Section 48 Prudential Report with any supporting advice or commentary for consideration and adoption by General Council.

Carried Unanimously

Southern Football Facility - Prudential Report

Report Reference: FAC200225R05

The Committee noted the following comments in relation to the Southern Football Facility – Prudential Report:

- Could the water costs be negotiated as part of the lease
- Encourage efficiencies between the two projects being delivered as one project (Southern Football Facility and SWBMX Facility)

Moved Councillor Gard, Seconded Mr Papa

That the Finance and Audit Committee:

1. Notes that the Section 48 Prudential Report addresses the requirements under the *Local Government Act 1999*.
2. Endorses the draft Section 48 Prudential Report with any supporting advice or commentary for consideration and adoption by General Council.

Carried Unanimously

Draft Annual Business Plan 2020/21 and Long Term Financial Plan

Report Reference: FAC200225R06

The Manager Finance introduced the item. He highlighted the following key points:

- Of particular note is a forecast increase in ongoing expenditure of over \$1.05m from 2021-22 – primarily due to an increased service level in relation to Streetscapes and Treescaping and 10 year program of pram ramp DDA compliant upgrades at \$630k pa from 2021-22.
- There is a net increase in funding required for new initiatives in 2020-21 of \$5.425m, \$3.78m of which is funded through reserves with the balance funded through rates and grants.
- In developing the LTFP we are looking at 1.6% throughout the 10 years of LTFP down from 1.8% in previously adopted option.
- Council has a desire to further reduce rates from 1.6% down to 1% with 0.1 steps over 7 years. With increased ongoing funding of over \$1.05m being introduced to the LTFP and ongoing operational, maintenance and renewal costs for new major projects (Soccer & BMX) a combined impact of over \$567m p.a., this is making this option unsustainable in the longer term.
- The aim is to still progress reduced rates and look for savings opportunities in future (e.g. utilities optimisation project and other initiatives) but we may not get down to 1%. Council needs to be cautious about reducing rates too low while maintaining or increasing service levels and new projects.
- Reserve funding of greater than \$17m is being used in 2019-20 and 2020-21, with a further \$2.3m beyond that committed to the Coastal Walking Trail.
- Key projects include BMX and Soccer, along with another major project (Mitchell Park) which are outlined on page 125 of the agenda.
- The Capital program for 2020-21 will be over \$32m excluding BMX and Soccer which will be allocated when the timing of the program works are clarified.

The Committee provided the following feedback in relation to the item:

- Financial stress for Australians has increased in the past 6 months.
- The management team has done well with the cross council collaboration projects
- Council needs to be mindful of the flow-on effect of the increase in the Superannuation Guarantee which may impact operational costs going forward.
- The key assumptions and forecast 1.6% rate seem reasonable for 2020/21.
- It would be useful to see the cash and reserve balances presented with the information on page 128.

Moved Mr Papa, Seconded Councillor Gard

That the Finance and Audit Committee:

1. Notes the development of the Draft ABP 2020/21 and LTFP (Attachment 2), including the proposed use of Council's Accounting Reserves to offset the funding requirements of new initiatives incorporated into the Draft 2020/21 Budget and LTFP
2. Supports the rating approach of 1.6% for 2020/21 (as per the rate modelling contained in this report), in the context of Council's LTFP and on-going financial sustainability.

Carried Unanimously

Adjournment

The Chair sought and was granted leave of the meeting for an adjournment for a period of 5 minutes.

3.31pm meeting adjourned

3.36pm meeting resumed

Internal Audit Program 2020/21 - Payroll Internal Audit Report Reference: FAC200225R07

Mr Eric Beere and Ms Heather Martens from KPMG entered the meeting and introduced the item. It was highlighted that this was the first collaborative internal audit project between the Cities of Charles Sturt and Marion. It produced some good tangible outcomes along with some learning regarding the process. The collaborative behaviour from staff at both Council was evident.

The format of the audit was to go through the end to end process through the eyes of the customer. Looking for quick wins gaining efficiencies and also larger bodies of work for improvements. Overall the key findings were that the controls generally operated well, however there are a lot of manual processes.

The Committee provided the following feedback in relation to the item:

- At Charles Sturt Payroll aligns to HR compared to at Marion it aligns with Finance. Either works provided there is communication between HR and Finance.
- Even though Charles Sturt's systems are more advanced, similar issues were experienced by both Councils.
- The internal audit function needs to ensure it is testing the control environment. Although the advisory and value add services are useful, the Audits still need to provide assurance that the controls are adequate.
- It would be ideal to undertake further testing of the award and what staff are being paid to ensure compliance and that management interpretation of the award is correct.
- The report could have benefited from an improvement plan regarding the LEAN initiatives.
- The collaborative model is of interest interstate, it is considered to be a role model for others.
- The issues experienced by City of Charles Sturt, despite their more advanced systems, should be used as a learning tool when implementing new payroll systems at City of Marion.

Action: Internal Audit Program for 2020/21 be presented at the May 2020 meeting.

Moved Councillor Mr Papa, Seconded Ms Johnston

That the Finance and Audit Committee:

1. Notes the progress of the Internal Audit Plan 2019/20.

2. Endorses the Collaborative Payroll Internal Audit Report (Appendix 1)

Carried Unanimously

REPORTS FOR NOTING

Corporate Risk Quarterly Report

Report Reference: FAC200225R08

The Risk Coordinator joined the meeting and explained the process behind the item. It was explained that the Executive Management Group discuss WHS and Risk fortnightly, with a focus on issues management. The Risk Working Group meets quarterly and considers the Councils high risk and mitigation actions and any changes to the Corporate Risk Register. The reports provided publically to Council and the Committee are high level to ensure that they can be considered in public as the level of detail provided in the register will impact on the level of confidentiality required.

Action: The consequence ratings are reviewed prior to the next report.

Moved Councillor Ms Johnston, Seconded Councillor Gard

That the Finance and Audit Committee:

1. Notes the Corporate Risk Quarterly Report

Carried Unanimously

Order of the Agenda

The Chair sought and was granted leave of the meeting to vary the order of items and bring forward the item 'Internal Audit Program - Implementation of Recommendations' (Report Reference FAC200225R10).

Internal Audit Program - Implementation of Recommendations

Report Reference: FAC200225R10

The Committee noted the report and provided the following feedback:

- When setting scopes ensure the core assurance and internal controls are being addressed
- There should be a drive for validation of internal controls
- Look for better ways to summarise the reports.

Service Review Program and Recommendations - Progress Update

Report Reference: FAC200225R09

The Committee requested an organisation total be included in the table.

The Committee noted the item and the proposed steps to complete the overdue Records Management Service Review recommendations.

WORKSHOP / PRESENTATION ITEMS - Nil

OTHER BUSINESS - Nil

MEETING CLOSURE

Meeting Declared Closed at 4.42pm

CONFIRMED THIS 19 DAY OF MAY 2020

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CHAIRPERSON