

FAC201013 - FINANCE AND AUDIT COMMITTEE MEETING

Tuesday, 13 October 2020 at 02:00 PM

Council Administration Centre, 245 Sturt Road, Sturt



PRESENT:

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

In Attendance

Mr Adrian Skull	Chief Executive Officer
Mr Tony Lines	General Manager City Services
Ms Sorana Dinmore	General Manager Corporate Services
Ms Kate McKenzie	Manager Corporate Governance
Ms Jaimie Thwaites	Unit Manager Governance and Council Support
Mr Ray Barnwell	Manager Finance
Ms Sherie Walczak	Unit Manager Risk
Mr Lee Girolamo	Deloitte Touche Tomatsu
Mr Eric Beere	KPMG
Ms Heather Martens	KPMG

OPEN MEETING

The Chair opened the meeting at 2:00pm

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)

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

Nil declarations were made

CONFIRMATION OF MINUTES

Confirmation of the minutes for the Finance and Audit Committee Meeting held on 13 October 2020

Report Reference: FAC201013R01

Moved Mr Papa, Seconded Councillor Gard

That the minutes arising from the Finance and Audit Committee Meeting held on 18 August 2020 be taken as read and confirmed.

Carried Unanimously

ORDER OF AGENDA

The Chair sought and was granted leave of the meeting to bring forward the following items:

- Meeting with the External Auditors in Confidence (without management present) (Report Reference: FAC201013R11)
- Independence of Council's Auditor (Report Reference: FAC201013R09)
- Annual Financial Statements for the year ended 30 June 2020 (Report Reference: FAC201013R10)

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

Report Reference: FAC201013R11

Moved Mr Papa, 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 Mr Lee Girolamo 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 comments provided by the Chair following the discussion within the minutes.

Carried Unanimously

2.11pm the meeting went into confidence

The members of the Finance and Audit Committee met a representative of Deloitte's, Lee Girolamo, without Management present. The Deloitte representatives and the Committee discussed the following matters:

- the level of cooperation and the relationship with the administration.
- the adequacy and quality of the controls, systems and processes in place.
- some of the major variances and the \$9M revaluation of assets.

2.28pm the meeting came out of confidence

Independence of Council's Auditor

Report Reference: FAC201013R09

Lee Girolamo from Deloitte confirmed the external auditor's independence.

Moved Councillor Ms Johnston, Seconded Councillor Gard

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 2019/20 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 2019/20 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 2019/20 financial year.

Carried Unanimously

Annual Financial Statements for the year ended 30 June 2020

Report Reference: FAC201013R10

Manager Finance introduced the item and highlighted the following:

- The Financial accounts as presented show Councils continued strong financial position
- Achieving an operating surplus of \$6.396m (6.83%) although \$885k less than original budget was sound
- key variances from budget are outlined on page 70 of report and against prior year on pages 71 and 72
- Financial Statements completed with a clean bill of health with regard to the financials and internal controls with no uncorrected misstatements or disclosure deficiencies.
- Council has implemented the new accounting standards relating to:
 - AASB 15 'Revenue from Contracts with Customers'
 - AASB 1058 'Income for Non for Profit entities
 - AASB 16 'Leases'

The most significant impact of these standards was recognizing as a current liability Grants received for a specific purpose not expended and not recognized as income in current year \$9.4m, \$5.6m of which was received in prior years not expended in full – requiring a once off opening balance adjustment in 2019/20 and a further \$3.8m in funding received in 2019/20 put to the balance sheet - the bulk of this relates to key projects such as BMX \$3.3m, Soccer \$2.3m and Streetscape Grant \$1.8m plus a number of minor grants.

- It was a challenging audit this year with Deloitte's working offsite due to COVID-19 and documents being required to be uploaded via portal which added additional process.

The Committee noted the report and discussed the following points:

- Capitalisation Pool Materiality comes about from reviewing the valuation data. There are assets which may not make the capitalisation threshold on an individual basis but should be capitalised on a group basis.
- The Asset Renewal Funding Ratio is low for this year at 58%. It doesn't include the effect of some of Council's expenditure on new or upgraded assets such as Morphettsville Park

- Upgrade \$3.5m, Marion Outdoor Pool upgrade \$1m and Streetscape upgrade of \$2.7m.
- The increase in employee entitlements as a result of less people taking leave during the initial period of COVID-19. Management advised that action had been taken to encourage staff to take leave to support their wellbeing.
 - The full effect of EPA levy increase was significant in 2019/20
 - COVID-19 impacted the last quarter (e.g. additional costs for cleaning and security, the timing of some Information Technology projects brought forward and a reduction in parking revenue).
 - The SRWRA accounts demonstrate a strong financial position and the information in the report is well presented.
 - The winding up of Council Solutions has had minimal impact on Council operations with a final distribution of \$124k received in 2019/20.

Moved Mr Papa, Seconded Ms Johnston

That the Finance and Audit Committee:

1. Recommends to Council that the audited Annual Financial Statements for the year ended 30 June 2020, 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 Annual Financial Statements and original adopted 2019/20 budget (Analytical Review), as included at Attachment 2.

Carried Unanimously

Corporate Risk Quarterly Report

Report Reference: FAC201013R13

The Unit Manager Unit introduced the item. It was highlighted that the review undertaken during the last quarter was a desktop review and a more comprehensive review will be carried out this quarter.

Risk reference GOV02 was discussed by the Committee and the following was noted:

- The relationship between Council Members and staff was considered constructive at present
- Council Members are not just the board but also community advocates.
- Council Members are seeking better ways to search for information as it can be challenging
- The Committee noted the work done to date, however appreciate there is still more work to do. The Committee noted the work on the environmental scan and suggested to include the opportunities from COVID-19 such as changing work environments for the business sector with the use of the CBD and business hubs in the suburbs.

BUSINESS ARISING

Business Arising Statement

Report Reference: FAC201013R02

The Committee noted the report.

REPORTS FOR NOTING

Elected Member Report

Report Reference: FAC201013R03

The importance of encouraging broader community consultation was highlighted and it was acknowledged that the topic is listed for discussion at a 2021 Elected Member forum meeting.

The Committee noted the report.

Investment Performance 2019/20

Report Reference: FAC201013R04

Manager Finance introduced the item and highlighted the following:

- The annual investment report shows a favorable return on its investments with an annual average rate of return on investments of 1.8%
- The return, despite 4 interest rate drops of 0.25% each during the year, was favorable against both benchmark returns
 - Average Reserve Bank Cash Rate - 0.66% and
 - Bank Bill Swap Rate (BBSW) 90 day - 0.71%
- Returns were achieved through higher than expected funds carried during the year offset by a drop in interest rates.

The Committee noted the report.

Debtors Report

Report Reference: FAC201013R05

Manager Finance introduced the item and highlighted the following:

- Despite Covid there was a drop in both rates and general debtors in 2019/20.
- Key movement in Rates Debtors is primarily as a result of action being taken under s184 of the Local Government Act 1999, since May of last year. As at the date of the report \$263k has been recovered with 24 properties going through that process to 30 June. A further \$70k has been recovered since, bring the total recovery to \$333k.
- Only 2 instances moved to sale process, with one paying out just prior to auction.
- It is interesting to note that during Covid 6% of ratepayers have paid their 2020/21 rates in full in July/August 2020 compared to 3% in 2019.
- The situation is continuously being monitored and Council is working with clubs and community groups to provide support as required.

The Committee noted the report.

Service Review Program and Recommendations - Progress Update

Report Reference: FAC201013R07

The Committee was advised that Erika Comrie's contract as part of the Cross-Council Collaboration was concluding at the end of October 2020.

The Committee noted the report.

Irrigation Construction Overview 2019/20

Report Reference: FAC201013R08

The General Manager City Services introduced the report explaining that it was the final project results for the Irrigation Construction and Maintenance Service Review which were not available in time for the August 2020 Committee meeting.

The Committee noted the report, highlighting that it was important for learnings to be made from the wrongly specified excavator.

Internal Audit Program - Implementation of Recommendations

Report Reference: FAC201013R06

Manager Corporate Governance introduced the item noting that the focus had been on deadline management for implementation of recommendations. The Committee was advised that a number of recommendations that were overdue or close to deadline were predominantly related to the digital transformation project.

The Committee noted the report and provided the following comments:

- the summary doesn't appear to tie in with the report.
- the items due 31 October 2020 showing as 'not started' should probably be considered 'off track'.
- the comment on the recommendation to record vendor details should note that they have been captured and the ITT Governance Framework will provide for them to be able to be recorded in an automated way (page 34).

REPORTS FOR DISCUSSION

Finance and Audit Committee Annual Report to Council 2019/20

Report Reference: FAC201013R12

Moved Councillor Gard, Seconded Mr Papa

That the Finance and Audit Committee:

1. Endorses the Annual Report to Council for 2019/20 provided at Attachment 1 to this report presented to the General Council meeting on 27 October 2020 with the following amendments:
 - On Page 216 the sentence “The Council continues to benefit from the audit programs which assist test control environments and mitigate organisational risks.” be amended to read “The Council continues to benefit from the audit programs which assess the control environments and mitigate organisational risks.”
 - On page 217 the sentence “The Committee did note that the financial ratios are conflicting, as the Council is in a strong position but is keeping a lot in reserves.” be amended to read “The committee noted the financial ratio showed large surplus however these are being held in reserves for 2021.”

Carried Unanimously

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

Report Reference: FAC201013R14

3.41pm Mr Eric Beere (KPMG) and Ms Heather Martens (KPMG) joined the meeting

Moved Mr Papa, 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 Heather Martens 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.
3. Include the comments provided by the Chair following the discussion within the minutes.

Carried Unanimously

3.42pm meeting went into confidence

The members of the Finance and Audit Committee met representatives of KPMG, Eric Beere and Heather Martens, without Management present. The KPMG representatives and the Committee discussed the following matters:

- the level of cooperation and the relationship with the administration.
- the adequacy and quality of the controls, systems and processes in place.
- the appropriateness of the internal control environment.

4.12pm meeting came out of confidence

Internal Audit Program 2020/21

Report Reference: FAC201013R15

Manager Corporate Governance introduced the item. It was highlighted that the program is well underway. The audits on COVID-19 Business Continuity Response and Stores Management (Collaborative) are almost completed and the Assurance Mapping and Project carry-overs are due to be completed in February. The Community Facilities Management Models audit may be deferred as a significant amount of work has already been carried out in this area.

The Committee noted the following in relation to the item:

- the focus on a "Risk-based inspection/ assessment regime seems to be missing
- the approach should include a review of assets inspection processes, how inspections are planned and scheduled, how risk analysis informs those processes/schedules and the extent to which all levels/types of assets are included in inspection regimes.

CONFIDENTIAL ITEMS - Nil

WORKSHOP / PRESENTATION ITEMS - Nil

OTHER BUSINESS

The Committee acknowledged and thanked Ms Johnston for her contribution, advice and knowledge for the past almost 3 years and wish her well with her future endeavours. Ms Johnston also thanked the staff and elected members and expressed her appreciation for being a part of the Committee. She indicated that she had learnt a lot during her time on the Committee.

MEETING CLOSURE

MEETING CLOSURE - Meeting Declared Closed at 4.22pm

CONFIRMED THIS 8TH DAY OF DECEMBER 2020

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CHAIRPERSON