

FAC210223 - FINANCE AND AUDIT COMMITTEE MEETING

Tuesday, 23 February 2021 at 02:00 PM

Council Administration Centre, 245 Sturt Road, Sturt



PRESENT

Emma Hinchey (Chair), David Papa (Via zoom), Nicolle Rantanen, Councillor Maggie Duncan

In attendance

Chief Executive Officer - Adrian Skull

General Manager Corporate Services - Sorana Dinmore

General Manager City Development - Ilia Houridis

General Manager City Services - Tony Lines

Manager Corporate Governance – Kate McKenzie

Acting Unit Manager Governance and Council Support – Victoria Moritz

Manager Finance – Ray Barnwell

Senior Procurement Specialist - Colin Heath

Manager Operations - Fiona Harvey

Unit Manager Risk – Sherie Walczak

Eric Beer - KPMG

Janet Burdon – KPMG

Heather Martens KPMG

Lee Girolamo - Deloitte

OPEN MEETING

The Chair opened the meeting at 02:01 PM

KAURNA ACKNOWLEDGEMENT

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

COMMITTEE 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.

No interests were disclosed.

CONFIRMATION OF MINUTES

Confirmation of the minutes for the Finance and Audit Committee Meeting held on 8 December 2020
Report Reference: FAC210223R01

Moved Councillor Duncan, Seconded Ms Rantanen

That the minutes arising from the Finance and Audit Committee Meeting held on 8 December 2020 be taken as read and confirmed.

Carried Unanimously

BUSINESS ARISING

Business Arising Statement - February 2021

Report Reference: FAC210223R02

Moved Councillor Duncan, Seconded Ms Rantanen

That the Finance and Audit Committee notes the report and the business arising statement. No further action is required on any item.

Carried Unanimously

CONFIDENTIAL ITEMS

Cover Report - Service Review - Fleet Management and Maintenance - Report

Report Reference: FAC210223F01

Moved Councillor Duncan, Seconded Ms Rantanen

That pursuant to Section 90(2) and (3)(a) and (d) 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 - Chief Executive Officer, Tony Lines - General Manager City Services, Sorana Dinmore - General Manager Corporate Services, Iliia Houridis - General Manager City Development, Ray Barnwell - Manager Finance, Colin Heath - Senior Procurement Specialist, Fiona Harvey - Manager Operations, , Kate McKenzie - Manager Corporate Governance, Victor Moritz – Acting Unit Manager Governance and Council Support be excluded from the meeting as the Committee receives and considers information relating to the *Service Review – Fleet Management and Maintenance – 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 personnel matters and commercial information of a confidential nature.

Carried Unanimously

2.03 pm the meeting went into confidence.

Moved Ms Rantanen, Seconded Councillor Duncan

In accordance with Section 91(7) and (9) of the *Local Government Act 1999*, orders that this report, the attachments and any minutes arising from this report having been considered in confidence under Section 90 (2) and (3)(a) and (d) of the Act, except when required to effect or comply with Council's resolution(s) regarding this matter, 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 2021.

Carried Unanimously

2.22 pm the meeting came out of confidence

Cover Report - Internal Audit Contract

Report Reference: FAC210223F02

Moved Councillor Duncan, Seconded Ms Rantanen

That pursuant to Section 90(2) and (3)(d) 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 - Chief Executive Officer, Iliia Houridis - General Manager City Development, Sorana Dinmore - General Manager Corporate Services, Tony Lines - General Manager City Services, Kate McKenzie - Manager Corporate Governance, Victoria Moritz - Acting Unit Manager Governance and Council Support, be excluded from the meeting as the Committee receives and considers information relating to the Internal Audit Contract, 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 the management of the contract.

Carried Unanimously

2.22pm the meeting went into confidence

Moved Ms Rantanen, Seconded Councillor Duncan

In accordance with Section 91(7) and (9) of the Local Government Act 1999, the Finance and Audit Committee orders that this report, and any minutes arising from this report, having been considered in confidence under Section 90 (2) and (3)(b)(i)(ii) of the Act, except when required to effect or comply with Council's resolution(s) regarding this matter, be kept confidential and not available for public inspection for a period of 12 months from the date of this meeting or until the new contract has been executed. This confidentiality order will be reviewed at the General Council Meeting in December 2021.

Carried Unanimously

2.26 pm the meeting came out of confidence

REPORTS FOR DISCUSSION

2.26 pm Elected Member Report

Report Reference: FAC210223R03

Councillor Duncan provided a brief summary of the report. The Committee noted the economic stimulus grants and that City of Marion has applied for approximately \$13m of Grant funding.

The committee noted the report and made no further comments.

2.30 pm Corporate Risk Quarterly Report **Report Reference: FAC210223R04**

The Unit Manager Risk advised the Committee that this report is the standard quarterly risks report. Risks are owned and updated by Management each quarter.

The Committee noted the report and made the following comments:

- The PESTLER environmental scan could be explained better.
- The LKCC risk be revisited to ensure the risk rating is adequate based on current circumstances.
- Risks IT004 and IT007 are different risks. IT004 relates to volume of work and current initiatives in the IT space, whilst IT007 relates to project management for the whole organisation and the implementation of a consistent project management methodology. The Committee noted that these risks may need rewording.
- Clarity was sought regarding when an observation in the environmental scan will be escalated to the risk registers. Management advised that this would occur through the Risk Working Group. The membership of this group is the Executive and Senior Managers who meet quarterly.
- Management should consider the escalating project / construction costs and availability of contractors to the risk register as there is evidence that this is increasing. There are examples where contractors aren't available, or prices have been more than anticipated.
- Risk MoP005 had increased due to increased reporting and an incident at the pool. The Committee noted that the pool has undergone upgrade and queried if this has caused the risk to the pool to increase. It was noted that the staff at the pool have undergone further training and staff numbers have increased to ensure Council is meeting the national guidelines and WHS requirements.
- IT008 is a new risk that has been added due to the Digital Transformation Project and the transition phase that the organisation is currently progressing through.
- Contractor Management (WHS) has been a high risk for some time. Resources have been allocated and recruitment is occurring.

The Committee indicated that there is not enough detail in the report which makes it difficult to understand why risks are being re-rated.

Action: the committee requested that the next quarterly report have more detail to assist with why the risk had been re-rated. Can dates for treatments also be included.

The chair sought leave of the meeting to amend the order of the agenda and bring forward the External Audit Engagement Report. Leave of the meeting was granted.

2.52 pm External Audit Engagement for the Year Ending 30 June 2021 **Report Reference: FAC210223R08**

Lee Girolamo (Deloitte) entered the meeting and advised the Committee that the report sets out the Audit Plan for 2020/21. It was highlighted that the Plan is consistent with previous years and no significant new accounting standards needed to be applied. The focus will be on expenditure and internal controls. The impacts of COVID-19 will continue to be assessed. The final audit report will be reported back to the Committee in October 2021.

It was noted that there has been significant IT change and IT procurement. The Committee recommended that this be reviewed as part of the audit.

Moved Ms Rantanen, Seconded Mr Papa,

That the Finance and Audit Committee:

1. Considers the outline of Deloitte's Audit Plan for the financial year ending 30 June 2021.

2. Notes the scope of the audit to be carried out by Deloitte for the year ending 30 June 2021.
3. Notes that the Chief Executive Officer will execute the acknowledgement of engagement letters.

Carried Unanimously

3.02 pm Cybersecurity Self Assessment Report Reference: FAC210223R05

The General Manager Corporate Services provided an overview of the report. It was noted that the Chief Data Officer is commencing on the 9th March 2021 which is a collaboration position across the three partner councils. The tasks outlined within the Plan are allocated to current resources until the new resource starts.

The Committee provided general comments that this was a good piece of work to undertake and queried the following:

- How is the Cyber Security being rolled out and staff training undertaken? Management advised that the training isn't currently mandatory however it does form part of the induction for new staff. Consideration will be given to increasing the mandatory requirements
- Does the Plan have adequate resources to deliver between now and the end of June 2021? It was confirmed that the Plan currently had adequate resources however, the market for human resources in this space was very competitive meaning that this could change, and resourcing could become a risk.
- Action 10 – Network Security (pg 33 of agenda). This action indicated that a monthly check would occur. The Committee suggested that a monthly check may be too long and that a different process may be required with more regular checks.

The Committee also noted that the Business Continuity Plan and Recovery Strategies were being updated.

Moved Ms Rantanen, Seconded Councillor Duncan

That the Finance and Audit Committee:

1. **Note the cybersecurity self-assessment.**
2. **Note the first draft of the remediation action plan, to be further enhanced in collaboration with our partners at the Cities of Charles Sturt and Port Adelaide Enfield as well as through our partnership with the federal Australian Cyber Security Centre.**

Carried Unanimously

3.13 pm Internal Audit Program 2020/21

- COVID-19 BCP Response Report

- Assurance Mapping Report

Report Reference: FAC210223R06

Mr Eric Beer, Ms Janet Burdon and Ms Heather Martens from KPMG entered the meeting.

Business Continuity Plan and COVID-19 Response

Ms Burdon provided an overview of the report and acknowledged that the City of Marion managed the response well with early activation of the Incident Management Team (IMT). It was noted that the Business Impact Assessment was in the process of being updated and the work hadn't been completed when the pandemic hit meaning that the existing Plans weren't fully sufficient. However, the organisation managed the situation well on the existing Plans and the performance was good in comparison to some other KPMG clients.

The Committee noted the key findings related to working from home arrangement, IT procurement in an

emergency, the BCP Framework and Recovery Strategies.

The Committee queried if Management was satisfied that no fraud had occurred as a result of COVID arrangements. It was noted that an ITT Asset Register has now been established regarding the allocation on equipment.

The Committee noted the report, indicated this was a thorough piece of work with good recommendations.

Assurance Mapping

Ms Martens provided an overview of the report highlighting that this work is an important first step to integrate assurance into risk management. Ms Martens acknowledged staff that had been involved as the review went across the whole council and a number of staff were involved.

A total of 19 risk areas were aggregated from the corporate risk register which included (at the time) 104 risks. Following from this work, a strategic risk register is required to be developed.

The Assurance Map reviewed the 1st, 2nd and 3rd line of defense for each of the 19 risks. The review recommends that those risks without 3rd line assurance may be considered for further audit work.

The Committee noted that across the review, there was 39 improvement opportunities identified. Many of these related to items where 2nd and 3rd lines of assurance were low or absent.

The Committee suggested that it would be useful to have a matrix to understand how the risk ratings were applied. It was advised by KPMG that the ratings were a little subjective however, those marked red had limited or no assurance.

It was noted by the Committee that this work now needs to connect back to the risk register to ensure that assessment of the assurance is consistent across both.

The Committee made the following points:

- Risk 2 – Breach of core financial controls was solid however ensure that this risk is not over engineered with too many controls therefore making the processes inefficient.
- Risk 3 – failure to attract and retain existing and new businesses had no formal strategy in place however some work was occurring. There was also no 3rd line of assurance for this risk.
- Risk 5 - Contractor management required further work and should be considered as part of further audit work (particular for post contract awarding processes).
- Risk 8 – Failure to develop and maintain key relationship didn't have a 3rd line of assurance however the development of relationship maps is recommended.
- Risk 15 - The Digital Transformation Project was a large piece of work and no 3rd line of assurance has been undertaken. Due to the size, complexity and cost, this should be considered as part of future audit work.
- Risk 16 – Project management is connected to the discussions within the Risk Quarterly Report and this risk could be considered as part of future audit work.
- Risk 17 - Funding risks although reporting mechanisms are in place, the Committee suggested that a report to this Committee could be useful.

The Committee acknowledged the large body of work. It is a good working document for the risk team and management to be working with.

Action – The Committee acknowledged that this work has aggregated a number of risks together and requested that a further report be considered regarding if the risks are acceptable within our risk framework and what is outside of tolerance.

The Manager Finance provided an overview of the report noting that the parameters for the Annual Business Plan were presented to the Committee in December 2020. The Committee noted that the funding for the Asset Management Plans have now been incorporated into the Long Term Financial Plan (LTFP). Council has considered four rate models with rate increases from 0 – 1.5 %. These were discussed informally at the Elected Member Planning Day in January 2021. Although, Council has not made a decision, the draft plan is being prepared on the basis of a 1% rate increase (depending on the outcomes of the grant stimulus).

The Committee raised concerns regarding why the ABP and LTFP considers borrowings when the forecast indicates cash surpluses? Management advised that the objective is to use cash reserve first, in line with the City of Marion Treasury Management Policy. Borrowings for major projects is considered by Council particularly around intergenerational equity, however managements recommendation would be to utilise cash available first and borrow only where there is a requirement to do so.

The Committee indicated that it is difficult to justify any borrowings with large cash surplus and would not recommend that this is a sound approach for Council. It was noted that approximately \$20m of the surplus is retained for carryovers and this funding would reduce with the delivery of the capital works program. The Committee recommended that Council consider removing borrowings from its LTFP whilst the cash surplus is predicted to be high.

Moved Ms Rantanen, Seconded Councillor Duncan,

- 1. That the Committee noted the report and recommends to Council that consideration is given to removing borrowings from the Long Term Financial Plan, whilst there is large cash surplus forecast within the Plan.**

Carried Unanimously

REPORTS FOR NOTING

Internal Audit Program - Implementation of Recommendations Report Reference: FAC210223R09

The Committee noted the report and requested that the risk rating be included. The Committee also queried if the recommendation for the Procure to Pay could be investigated as an add on to the existing software rather than waiting for a new system.

Action: That risk ratings of Internal Audit recommendations be added to the table.

Service Review Program and Recommendations - Progress Update Report Reference: FAC210223R10

The Committee noted the report. It was highlighted that a concentrated effort from Management is being pursued to close out recommendations before the end of the financial year.

WORKSHOP / PRESENTATION ITEMS – Nil

OTHER BUSINESS

The Committee expressed its thanks and appreciation to Mr Skull for his contribution to the City of Marion. His leadership, responsiveness and feedback to the Committee has been greatly appreciated.

MEETING CLOSURE

Meeting Declared Closed at 04.21 PM

CONFIRMED THIS 18TH DAY OF MAY 2021

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CHAIRPERSON