

**CONFIDENTIAL MINUTES OF THE AUDIT COMMITTEE MEETING  
HELD AT THE ADMINISTRATION CENTRE  
245 STURT ROAD, STURT  
ON TUESDAY 10 AUGUST 2010**



**Internal Audit Report – Enterprise Bargaining Calculations  
Ref No: AC100810F02  
File No: 12.44.2.1**

**5.40 pm the Manager Organisational Development entered the meeting**

**Moved Councillor J Veliskou, seconded Ms Cooper that:**

**pursuant to Section 90(2) and (3)(h) of the Local Government Act 1999 the Audit Committee orders that all persons present, with the exception of the following persons Mark Searle (Chief Executive Officer), John Valentine (Acting Director Governance), Kate McKenzie (Acting Manager Governance), Kathy Jarrett (Acting Director Corporate and Community Development), Jaimie Thwaites (Acting Executive Officer, Council Business), Andrew Lindsay (Manager, Organisational Development) and Vincent Mifsud (Manager, Finance) be excluded from the meeting as the Committee receives and considers information containing legal advice.**

**Carried Unanimously**

The Manager Organisation Development provided an overview of the report. He indicated that this situation had occurred through an error in a process. The City of Marion has used a model whereby it sets and maintains its salaries based on 6<sup>th</sup> highest within a reference group of 15 Councils. The model uses a level 3, step 4 pay rate as a comparison and Marion uses this information to position itself at 6<sup>th</sup> ranking amongst the reference group of 15 Councils. The philosophy behind the process is to create an environment in which salaries are not the motivator for staff to leave or come to the City of Marion. The process has served the organization well in the past.

Awareness of this current issue arose when the re-negotiations for the new agreement commenced. The processes commenced in March this year and it was discovered that Marion had moved from 6<sup>th</sup> position to 3<sup>rd</sup> position. When investigated, it was identified that incorrect data had been provided by 7 different Councils in the 2008 ranking process. The incorrect data in May 2008 showed that the City of Marion had moved from 6<sup>th</sup> to 9<sup>th</sup> which was a 1.09% adjustment factor. Salary adjustments had been made on this data and have now proven to be incorrect.

Ernst and Young (Internal Auditors) undertook a review to validate this and it confirmed that an overpayment of \$280k over the full life of the agreement had occurred. Based on the advice from Ernst and Young, legal advice was sought regarding how to progress redressing the overpayment and realignment to 6<sup>th</sup> ranking.

The Elected Members have been briefed on the progress of this matter on two occasions.

The Audit Committee queried why this issue had not been picked up early and indicated also that the process of relying on information gained from payroll staff from other councils seemed problematic.

The Manager Organisation Development advised that it was an error in the administrative

process that payroll had relied upon and that there had been no validation process. It wasn't until the negotiations for the new agreement commenced that the error was picked up.

Further controls have now been included which ensures that the contacts to provide the information are Human Resource Managers or equivalent. Once data is received, it is emailed back to each Council for confirmation and validation. It is also sent to the Union and to our Manager Finance for checking.

The question of fraud was raised by the Committee as the Payroll Officer applying this process would have received a benefit. The Manager Organisation Development confirmed that the process for obtaining the information was the normal process. It was the data provided that was incorrect. It also seems that this may be an issue across the sector because similar information has also been requested from the Local Government Association and it had also supplied incorrect data to Council.

Council administration is now considering how to progress this matter through the negotiation process for the new agreement which is currently underway. The proposed approach is to realign back to 6<sup>th</sup> position over the 3 years of the new EB agreement which equates to a 3.27% increase in salaries per financial year.

The Audit Committee queried the impact of getting back to 6<sup>th</sup> position in one year. The Manager Organisation Development indicated that this would mean a 1.85% increase for staff for 2010/11. The likelihood of this being voted for favorably by staff was low.

The Audit Committee made comment that the report didn't reflect enough of the lessons learnt and how the organisation would ensure it didn't happen again. The Audit Committee would like some further assurance regarding the recommended future process to ensure that this issue is resolved and not repeated.

#### **6.10 pm Ms Cooper left the meeting**

The Audit Committee noted that salaries were note higher than agreed between the Council and the Union. The Council/CEO has two decisions to make:

1. Whether it would seek to recover the overpayment as they were a genuine error. The Committee accepted that Council may not wish to pursue recovery.
2. How quickly salaries would be returned to their correct level. Council could do this in year 1 of the next agreement, or something in between. The Management proposal was to do it by the end of the next agreement but Council could legitimately elect to do this earlier (particularly if it did not pursue recovery of overpayment)

The Audit Committee queried the issue of recovering the overpayment from staff and how this issue could be addressed in a new agreement.

The Chief Executive Officer indicated that legal advice had been sought and although recovery was possible, it did pose a number of issues. He indicated that he would like to draw a line in the sand on the issue of recovery and focus efforts on how to get back to 6<sup>th</sup> ranking.

The Committee queried why this hadn't been picked up in monthly finance reports which often reflect that salaries are unfavorable?

The Manager Finance indicated that it was \$285k over 3 years within a salaries budget of

approximately \$20m. Based on these figures, it would not be highlighted as such an overrun and could be the result of any number of operational matters.

The Audit Committee questioned Council's role in resolving this issue (if any).

The Chief Executive Officer responded that this issue was a CEO responsibility under the provisions of the Local Government Act 1999. The issue had been raised with the Audit Committee due to the process and internal control gaps. It was his intent to recover to 6th position as soon as practicable balanced against the impacts on staff.

**Moved Councillor J Veliskou, seconded Mr Owens that:**

- 1. the Audit Committee note the audit findings as detailed in the Ernst & Young Audit report, Managements response to those findings and process improvement ideas and the proposed approach to redressing the inadvertent movement of salary rates to a 3<sup>rd</sup> ranking.**
- 2. In accordance with Section 91(7) and (9) of the Local Government Act 1999 the Committee orders that this report, the minutes arising from this report and any other information distributed at the meeting having been considered in confidence under Section 90(2) and (3)(h) of the Act 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 2010.**

**Carried Unanimously**

