

Reference: AF11/863

TO: JEROEN ZWIJNENBURG (PRESIDING MEMBER)  
DONALD CURRIE  
CR SONYA MEZINEC  
MAYOR LEE (EX OFFICIO)  
CHIEF EXECUTIVE OFFICER  
DIRECTOR - CORPORATE SERVICES  
FINANCE MANAGER  
SIMON SMITH, PARTNER, GALPINS

CC: ALL MEMBERS  
DIRECTOR - OPERATIONAL SERVICES  
MANAGER - GOVERNANCE AND PROPERTY  
TEAM LEADER FINANCE  
MANAGEMENT ACCOUNTANT

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NOTICE is given that the Audit Committee will meet in the following Meeting Room on the day, date and time as follows:

**Audit Committee**  
*(Committee Room, Level 4)*

Tuesday, 22<sup>nd</sup> March, 2016 at 5.30 p.m.

An agenda for the meeting is enclosed herewith.



**Grant HUMPHRIES**  
DIRECTOR - CORPORATE SERVICES

8<sup>th</sup> February, 2016  
MJT

## AUDIT COMMITTEE

Meeting to be held on Tuesday, 22<sup>nd</sup> March, 2016 at 5.30 p.m.  
in the Committee Room, Civic Centre, 10 Watson Terrace, Mount Gambier

### AGENDA

PRESENT: Mr Jeroen Zwijnenburg (Presiding Member)  
Mr Donald Currie  
Cr Sonya Mezinec

APOLOGY/IES:

COUNCIL MEMBERS/  
OTHERS AS  
OBSERVERS:

GUESTS: Mr Simon Smith, Auditor, Galpins (to be confirmed)

COUNCIL EMPLOYEES  
IN ATTENDANCE: Mr Grant Humphries, Director - Corporate Services  
Mr Mark McShane, Chief Executive Officer  
Mr Gary Button, Finance Manager

OTHER APOLOGIES:

**WE ACKNOWLEDGE THE BOANDIK PEOPLES AS THE TRADITIONAL CUSTODIANS OF THE LAND WHERE WE MEET TODAY. WE RESPECT THEIR SPIRITUAL RELATIONSHIP WITH THE LAND AND RECOGNISE THE DEEP FEELINGS OF ATTACHMENT OUR INDIGENOUS PEOPLES HAVE WITH THIS LAND.**

MINUTES: moved the minutes of the previous meeting held on Tuesday, 13<sup>th</sup> October, 2015 be taken as read and confirmed.  
seconded

QUESTIONS:

- (a) With Notice – Nil received
- (b) Without Notice –

### **1. REPORTS FOR INFORMATION**

The Director - Corporate Services referenced the following Council Reports for the information of the Audit Committee:

- 1.1 CCS Report No. 67/2015 - Budget Update as at 30<sup>th</sup> September, 2015
- 1.2 CCS Report No. 1/2016 - Council's Fees and Charges Review 2016/2017
- 1.3 CCS Report No. 4/2016 - Review of Valuation and Rating System

### RECOMMENDATION NO. 1

moved it be recommended that the above reports be received.  
seconded

**2. EXTERNAL AUDITOR - Ref. AF12/227**

The Director - Corporate Services reported:

- (a) by letter dated 9<sup>th</sup> October, 2015, Council's Auditor provided the final audit management letter for the 2014/2015 financial year;
- (b) this letter was presented to the Audit Committee at its meeting held on 13<sup>th</sup> October, 2015 where it was resolved:

*"(a) the letter be received and contents noted;*

*(b) the identified immaterial uncorrected statement (understated sick leave provision amount) referenced in the Audit Management letter be endorsed by Council as immaterial;*

*(c) the Audit findings and recommendations be referred to the Council administration for attention and to the Audit Committee for ongoing monitoring;*

*(d) Councils External Auditor be advised of this course of action."*

- (c) the following table represents a consolidation of the 2015 Audit findings (copy attached):

AUDIT	FINDING	RISK	STATUS
14/15 Interim	Leave Policies	Moderate	Ongoing - Completed
14/15 E of Y(New)	Risk Management	Moderate	Awaiting Report
	VIC Stock Control	Low	Awaiting Report
	Assets Rec'd for Consideration	Moderate	Ongoing - Completed
14/15 E of Y (Repeat)	TOIL Balances	Low	Ongoing - Completed
	Annual Leave Entitlements	Low	Ongoing - Completed
	Asset Register Differences	Low	Completed

**RECOMMENDATION NO. 2**

moved it be recommended:

- (a) the report be received;
- (b) the outstanding 2015 Audit findings continue to be monitored by the Audit Committee.

seconded

**3. AUDIT WORK PROGRAM 2014 - 2018 - Ref. AF11/863**

The Director - Corporate Services reported:

- (a) the Audit Committee should continually review the Audit Work Program to establish whether any adjustments are required to be introduced for the particular financial years activities;
- (b) the Audit Work Program 2014-2018 was last reviewed and adopted in August 2015;
- (c) the following activities and associated timelines (extracted from the Audit Work Program) are provided in abbreviated form, for the Committees reference and review:

Audit Committee Agenda, Tuesday 22<sup>nd</sup> March, 2016 cont'd...

FIRST QUARTER

- Work Plan
- Treasury Management Reviews
- Asset Reviews/Revaluation Strategy
- Policy reviews incorporating;
  - Internal Controls
  - Fraud and Corruption Framework
  - Whistleblowing
  - Risk Management
  - Budget Performance

SECOND QUARTER

- Interim External Audit
- Work Plan
- Business Continuity
- Business Plan and Budget

THIRD QUARTER

- Work Plan
- Annual Report to Council incorporating;
  - Self Assessment
  - Review of Work Plan
  - Review of Terms of Reference

FOURTH QUARTER

- Work Plan
- Statutory External Audit(Inc. Fin. Int. Controls)
- AFS authorisation by Presiding Member
- Council Annual Report Compliance

RECOMMENDATION NO.3

moved it be recommended the report be received.

seconded

**4. FINANCIAL SUSTAINABILITY - Key Financial Indicators - Ref. AF14/81**

The Director - Corporate Services reported:

- (a) each year following the annual Audit process this report is prepared in order to track and measure Council's key financial indicators;
- (b) Corporate and Community Services Report 76/2015 is tabled for information and further discussion at the meeting;

RECOMMENDATION NO. 4

moved it be recommended that the report be received.

seconded

**5. TREASURY MANAGEMENT - Annual Review for 2014/2015 - Ref. AF11/810**

The Director - Corporate Services reported:

- (a) Council's Treasury Management Policy calls for an annual report to be prepared on Council's Treasury Management operations;

- (b) Corporate and Community Services Report No. 2/2016 is tabled for discussion/adoption by the Audit Committee.

RECOMMENDATION NO. 5

moved it be recommended:

- (a) the report be received;
- (b) Corporate and Community Services Report No. 2/2016 be adopted by Council.

seconded

**6. ASSET REVALUATION STRATEGY - Ref. AF11/713**

The Director - Corporate Services reported:

- (a) Corporate and Community Services Report No. 3/2016 provides and update and recommended amendments to Council's Asset Revaluation Strategy;
- (b) the Report is provided for discussion/adoption by the Audit Committee.

RECOMMENDATION NO. 6

moved it be recommended:

- (a) the report be received;
- (b) Corporate and Community Services Report No. 3/2016 be adopted by Council.

seconded

**7. CONFLICT OF INTEREST - REVISED LEGISLATION - Ref. AF11/903**

The Director - Corporate Services reported:

- (a) recent amendments to the Conflict of Interest provisions in the Local Government Act have implications for elected Members and Member of Boards/Committees appointed by Council (including Audit Committee Members);
- (b) the implications of these new provisions were the subject of a recent training program within Council. A copy of the material provided as part of the training is now provided to further explain the new provisions;
- (c) it is anticipated that the new provisions will come into effect from April 2016.

RECOMMENDATION NO. 7

moved it be recommended:

- (a) the report be received for information;

seconded

**8. CORPORATE AND COMMUNITY SERVICES REPORT NO. 19/2016 - Policy Review - Risk Management Framework Update and Policy Review - Ref. AF11/1950; AF11/1955**

The Manager Governance and Property reported:

- (a) Corporate and Community Services Report No. 19/2016 provides an update on a number of elements of Council's Risk Management Framework including;
- Policy Reviews (Fraud and Corruption and Whistleblowers Protection with no change)
  - Risk Management Framework (integrating Financial Internal Controls into Council's overall Risk Management Framework);
  - Risk Register (report on review progress)
  - Business Continuity Plan

**RECOMMENDATION NO. 8**

moved it be recommended:

- (a) Corporate and Community Services Report No. 19/2016 be received;
- (b) Council hereby re-adopts the following (unchanged) Policies as provided with this report:
- F225 – Fraud and Corruption Prevention
  - W150 – Whistleblowers Protection
- (c) Council hereby adopts replacement Council Policy R305 – Risk Management Framework Policy, as provided with this report;
- (d) Council hereby revokes Policy I105 Internal Controls;
- (e) Council makes the necessary amendments to Council's Policy Manual Index.

seconded

**9. FINANCIAL INTERNAL CONTROLS - Ref. AF11/863**

The Director - Corporate Services reported:

- (a) Council in June 2015 resolved to adopt the following recommendation of the Audit Committee;
- i) the report be received;
  - ii) the Audit Committee accepts the risks and associated actions listed in the Control Assessment Worksheets;
  - iii) the Audit Committee refers the risk assessments to Council for consideration and adoption;
  - iv) as part of this recommendation to Council, the Audit Committee acknowledges the additional resources required to develop the 'Internal Financial Control Procedures Manual' and to complete the ongoing risk review processes.

Audit Committee Agenda, Tuesday 22<sup>nd</sup> March, 2016 cont'd...

- (b) Since that resolution, there have been a number of developments including:
- the appointment of a Management Accountant (commenced 7<sup>th</sup> March, 2016) whose duties include implementation of Council's Internal Financial Controls and an Internal Audit function;
  - the integration of Financial Internal Controls into Council's overall risk management regime discussed in previous Agenda item;
  - revocation of former Internal Controls Policy with content adopted into a Procedure under Council's Risk Management Framework (recommendation in previous Agenda item);
  - work commenced on the ongoing Financial Internal Controls risk review process (progress report provided which will become a regular feature of Audit Committee Agendas);
  - development of an 'Internal Audit Charter' to guide the work of the Management Accountant.

**RECOMMENDATION NO. 9**

moved it be recommended:

- (a) the report be received;
- (b) the Internal Audit Charter as presented, be adopted.

seconded

**10. NEXT MEETINGS (for confirmation)**

- Tuesday, 31<sup>st</sup> May, 2016
- Tuesday, 2<sup>nd</sup> August, 2016
- Tuesday, 4<sup>th</sup> October, 2016

The meeting closed at \_\_\_\_\_ p.m.

16<sup>th</sup> March, 2016  
MJT/FM

## 1.4 Category of Findings

In order to assist the Council in setting priorities we have classified our findings in accordance with our risk assessment. This risk assessment is focussed on risk of material misstatements in the financial statements which is the primary purpose of our audit.

The Council should also perform its own assessment based not only on audit risks but also other risks management considers relevant such as non-compliance with pertinent legislation and regulations.

A table defining the risk ratings used by audit to classify the findings can be seen below:

Category	Description
High Risk	The issue described could lead to a material misstatement in the Council's financial statements.
Moderate	The issue described does not represent a material weakness due to the existence of compensating controls. However, the failure of the compensating controls or the existence of any other moderate weakness within the same business cycle may lead to a material misstatement in the Council's financial statements.
Low Risk	The issue described is a low risk weakness due to the existence of compensating controls and the failure or absence of the internal controls does not impact significantly on the Council's financial statements. However, multiple low level risk weakness within the same business cycle may lead to a material weakness in the Council's internal controls and non-compliance with s125 of the Local Government Act.
Better Practice	The issue described has been included in this report as an opportunity for better practice.



## 2. NEW AUDIT FINDINGS IDENTIFIED IN 2014-15

### 2.1: Leave Policies

Moderate

Issues and Impact	Recommendations	Management Response
<p><b><u>Issues</u></b></p> <p>Effective February 2014, a suite of policies were revoked by Council including Annual Leave &amp; Long Service Leave Policies. Council now solely relies on the relevant award provisions for such matters which may not cover all the principles of leave including the eligibility and entitlement, taking of leave and the expectations and requirements for effective leave management.</p> <p><b><u>Impact</u></b></p> <p>In the absence of clearly documented policies, the behavior of staff may not reflect the objectives, culture and values of council.</p>	<p>Council reviews relevant award provisions and ensure all aspects of leave are covered, including the management of leave balances.</p>	<p>In place of the former Corporate Leave Policies the administration has introduced a monthly reporting regime for all employee leave types.</p> <p>Senior Managers are provided with monthly balances of <u>all</u> leave types including:</p> <ul style="list-style-type: none"> <li>• Annual Leave</li> <li>• Sick Leave</li> <li>• Long Service Leave</li> <li>• TOIL</li> </ul> <p>In addition the CEO receives a monthly management leave balance report for <u>all</u> employees.</p> <p>This ongoing, regular monitoring program identifies any excessive leave balances and if necessary leave plans are established to reduce Council's liability.</p>

## 2.2: Risk Management

Moderate

Issues and Impact	Recommendations	Management Response
<p><b><u>Issues</u></b></p> <p>The 2006-2010 Risk Register has not been reviewed recently. Audit acknowledges that risks related to Council's operations are usually discussed at audit committee and council meetings.</p> <p><b><u>Impact</u></b></p> <p>It is a good practice to maintain a risk register to ensure that all the risks are identified for the areas the Council considers critical and that these risks are adequately addressed. Risk registers also promote transparency in risks identification and assist Councils in ensuring smooth succession in case of changes in senior management.</p>	<p>Council to continuously develop the risk register and review at least annually to make sure it is relevant and up to date with a variety of risks facing council.</p> <p>We understand that an update on the Risk Register review process went to the May15 Audit Committee Meeting and that a simultaneous review of Council's Risk Register and Business continuity Plan is proposed in 2015.</p> <p>Guidance/assistance is being sought from LG Risk Services.</p>	<p>Council's Risk Management Framework Policy reviewed by the Audit Committee/Council in July/August 2015.</p> <p>A commitment is provided by the administration to review by 2006 - 2010 Risk Register as a matter of priority as part of Council's overall re-development of its Risk Management Framework.</p> <p>Council notes the excellent results achieved in its 2015 Risk Management Review.</p>

## 2.3: Lady Nelson Visitor Information Centre Stock Control

Low Risk

Issues and Impact	Recommendations	Management Response
<p><b><u>Issues</u></b></p> <p>There were instances of stock on hand amounts being higher than the numbers recorded in the stock system and some items shown in minus amounts in the system. This would suggest that stock records were not updated when goods were received. Stock records are confirmed through a stock count on a quarterly basis.</p> <p>The total dollar value of the Lady Nelson Visitor Information Centre stock is minor when considered in the context of the Council's financial statements, but it is important to maintain a culture of control and accountability within council operations.</p> <p><b><u>Impact</u></b></p> <p>The reliability of the stock system may be compromised if the system is not updated when new stock arrives. This increases the difficulty of keeping track of stock loss or damage.</p>	<p>Review procedure for updating stock records when goods are received and keep a record of quarterly stock takes, signed off by the responsible staff members.</p>	<p>Council Administration review stock control processes at The Lady Nelson and introduce new controls/ processes to address the issued identified at Audit.</p>

## 1.5 New Findings Identified in 2014-15

Finding	Description	Risk
2.1	<p><b><u>Assets received for no consideration</u></b></p> <p>Audit noted that part of the increase in value of infrastructure assets resulting from the revaluation related to first time inclusion of assets received free of charge. There is an opportunity for Council to consider its accounting policy for such assets, and book revenue when this occurs rather than including in the revaluation adjustment, which goes directly to equity.</p>	Moderate
2.2	<p><b><u>TOIL Balances</u></b></p> <p>TOIL balances for inside staff have been recognised for the first time. There are twelve employees with more than 40 hours TOIL accrued as at 30 June 2015.</p>	Low

## 1.6 Summary of Repeated Findings from previous years

Finding	Description	Risk
3.1	<p><b><u>Annual Leave Entitlements</u></b></p> <p>Audit identified during the 2014-15 final audit that there were a number of staff with annual leave balances in excess of 300 hours</p>	Low
3.2	<p><b><u>Asset Management - Asset Registers</u></b></p> <p>Differences were noted between the asset register and the general ledger. The difference has reduced significantly since last year</p>	Low

## 2. NEW AUDIT FINDINGS IDENTIFIED IN 2014-15

2.1: Assets received free of charge		Moderate
Issues and Impact	Recommendations	Management Response
<p><b><u>Issues</u></b></p> <p>Audit noted that part of the increase in value of infrastructure assets resulting from the revaluation related to first time inclusion of assets received free of charge.</p> <p>From time to time developers build roads and hand them over to Council. These are not currently taken to the general ledger at the time they occur, but they could in fact be booked as revenue.</p> <p>There is an opportunity for Council to consider its accounting policy for such assets, and book revenue when this occurs rather than booking a periodic revaluation adjustment, which goes to equity.</p> <p><b><u>Impact</u></b></p> <p>Council could improve its reported financial position by recognising revenue when it occurs rather than recognising revaluation increments.</p>	<p>Council to consider its policy for recognising assets received free of charge.</p>	<p>This suggestion is currently being implemented.</p> <p>The past practice of relying on revaluations to recognise assets received free of charge will cease and will be replaced with the recognition of revenue associated with these type of transactions.</p>

## 2.2: Time off in lieu (TOIL) Balances

Low

Issues and Impact	Recommendations	Management Response
<p><b><u>Issues</u></b></p> <p>Council has recognised TOIL balances for inside staff for the first time.</p> <p>There were twelve staff (inside and outside) with TOIL balances in excess of 40 hours. The total value of TOIL for all staff was \$93,000.</p> <p><b><u>Impact</u></b></p> <p>TOIL balances may be excessive and exceed the allowable balances under the relevant EB. Staff not taking TOIL may lead to health safety and welfare issues and increase the ability to conceal fraud. In the case of promotion, TOIL may be paid out or taken at a higher rate of pay than that at which it was accrued.</p>	<p>Council to ensure that employees do not accumulate excessive annual leave balances.</p>	<p>An electronic On-line Leave (OLL) system was full implemented on 1 May 2015 for Council's inside staff. At this stage all accrued RDO balances (previously off the system) were incorporated with TOIL balances which in the short term inflated these figures.</p> <p>As at 30 September 2015 there was ten staff with TOIL balances in excess of 40 hours.</p> <p>Monthly reports are distributed to all Managers/Supervisors to assist in controlling these balances. OLL also allows daily access to all staff to view their leave accruals.</p> <p>Christmas/New Year holiday shutdown will provide an opportunity for staff to reduce this liability further.</p>

### 3. REPEATED FINDINGS FROM PREVIOUS YEARS

#### 3.1: Annual Leave Entitlements

Low

Issues and Impact	Recommendations	Management Response
<p><b><u>Issues</u></b></p> <p>Audit noted in 2013-14 that there were four staff with leave balances in excess of eight weeks (40 days). As at 30 June 2015, there were eight staff with leave balances in excess of eight weeks. The largest balance of 45.8 days is similar to last year. Management has advised us of recent changes to leave management processes:</p> <p><i>Senior Managers are provided with monthly balances of <u>all</u> leave types including annual leave, sick leave, long service leave and TOIL.</i></p> <p><i>In addition the CEO receives a monthly management leave balance report for <u>all</u> employees.</i></p> <p><i>This ongoing, regular monitoring program identifies any excessive leave balances and if necessary leave plans are established to reduce Council's liability.</i></p> <p>The effectiveness of the processes will be measured by the improvement or deterioration in the extent of excessive leave balances over the next twelve months.</p> <p><b><u>Impact</u></b></p> <p>Leave balances may be excessive and exceed the allowable balances under the relevant EB. Staff not taking leave may lead to health safety and welfare issues and increase the ability to conceal fraud. In the case of promotion, leave may be paid out or taken at a higher rate of pay than that at which it was accrued.</p>	<p>Council to ensure that employees do not accumulate excessive annual leave balances.</p> <p>Council to review the effectiveness of the leave management processes during 2015-16.</p>	<p>Reports continue to be distributed each month and periodic reviews are conducted at our Management Executive meetings.</p> <p>As at 30 September 2015 there was nine staff with leave balances in excess of eight weeks (40 days). With leave already planned and approved but not yet taken there will only be four employees in excess of eight weeks.</p> <p>We are comfortable that the current level of management reporting and with the recent introduction of OLL that these measures will enable management to control the risk associated with excessive leave accruals.</p>

## 3.2: Asset Management - Asset Registers

Low

Issues and Impact	Recommendation/s	Management Response
<p><b><u>Issues</u></b></p> <p>Audit noted in 2013-14 that roads and footpaths infrastructure asset register totals did not agree with the general ledger, the variance being \$225,000. However, the Life to Date valuation report did agree with the general ledger.</p> <p>Council was to review the matter with software provider Civica.</p> <p>At 30 June 2015, the variance had reduced to \$24,000.</p> <p><b><u>Impact</u></b></p> <p>Risk of financial statements being misstated if general ledger balances are not supported by asset registers. Risk has been classified as low as the variance is small and has been reduced. The issue is of interest mainly as to why it occurs, and to ensure that it does not result in a future material variance.</p>	<p>Council to continue to work with the software provider to resolve the variance.</p>	<p>This issue is basically only a false reporting issue stemming from one report. Other reports that are accessing the same data balance to our financial information.</p> <p>We are continuing to work with our software provider (Civica) to resolve this glitch and expect to see this in balance as at 30 June 2016.</p>



## CORPORATE AND COMMUNITY SERVICES REPORT NO. 76/2015

**SUBJECT: FINANCIAL SUSTAINABILITY – KEY FINANCIAL INDICATORS**

**REF: AF14/81**

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*Goal: Governance*

*Strategic Objective: (i) Establish measures for Council's performance and continually compare against community expectations.*  
*(ii) Engage with national, state, regional and local forums and partnerships to provide solutions and options to continually improve Councils service delivery and performance.*

### **What is Financial Sustainability?**

The definition of Financial Sustainability for Local Government emanated from the independent SA Local Government Financial Sustainability Inquiry in 2005.

It is defined as:

*"A Council's long-term financial performance and position is sustainable where planned long-term service and infrastructure levels and standards are met without unplanned increases in rates or disruptive cuts to services."*

The definition was endorsed nationally at the National General Assembly of Local Government in Canberra in November 2006.

As part of the financial sustainability inquiry conducted in 2005, each Council was categorised into one of 6 groups, with Category 1 being Sustainable with a very substantial margin of comfort and Category 7 being Unsustainable.

Mount Gambier's ranking at this time was a Category 4, being sustainable with a minimum margin of comfort. The definition attributed to this category was:

*"If unanticipated financial shocks/risks eventuate on top of known developments, the Council should be able to avoid a substantial per-property rates increase albeit with a minimum margin of comfort **provided** its revenue and spending policies remain unchanged over time."*

To put this into some form of context, 43 of the 68 South Australian Councils (63%) received a rating of 4 or worse.

### **Why is it important?**

The importance of financial sustainability is to ensure that each generation 'pays their way', rather than any generation living off their assets and leaving it to the future generations to address the issue of repairing/replacing worn out infrastructure.

The Council is the custodian of infrastructure and assets with a current written down value of approximately \$230 million. Council has the responsibility to ensure that assets are managed efficiently and effectively and that decisions regarding the acquisition of new assets and the sale and maintenance of existing assets are undertaken in an open and transparent fashion.

Sound asset management is the key to financial sustainability. There is clearly a direct link between the development and implementation of Council's Infrastructure and Asset Management Plan and its LTFP. Council expends considerable funds on the acquisition and management of assets. It will be exposed to financial risk over the longer term if budget processes have little regard for ongoing costs associated with the maintenance and renewal of these assets beyond the current budget period. It is incumbent on Council to carefully consider information about the stock of infrastructure and other assets and the contribution that current ratepayers are making to their consumption.

## Corporate and Community Services Report No. 76/2015 cont'd...

Council is facing new challenges in managing infrastructure and other assets as a result of issues such as increasing community expectations; population growth; development of new infrastructure; replacement of ageing infrastructure; new legislative requirements (e.g. EPA standards) and the growing demands of an ageing population.

The term “asset management” is used to describe the process by which the Council manages physical assets to meet current and future levels of service. The Council determines the policy framework within which existing assets are managed, new assets are acquired and the overall program for the maintenance and disposal of assets. This policy framework typically has regard to the link between the purchase, upgrade and disposal of assets, the delivery of services to communities and consultation processes required to ensure the community is well informed and able to influence the decisions of the Council.

### **How is it measured?**

To ensure that each generation ‘pays its way’, it is crucial that current ratepayers effectively fund the current net cost of services provided and community assets consumed. Without this being achieved (i.e. an operating deficit), future generations are effectively subsidising the current cost of service provision and asset consumption.

Based on this, the financial sustainability of a Council is measured by the surplus/(deficit) (before capital revenues) disclosed in the Income Statement. A Council’s long-term financial sustainability is dependent upon ensuring that on average, over time its expenses are less than its associated revenues.

The following indicators have been developed specifically to focus attention on factors identified as key to securing long-term financial security:

- Operating ratio
- Net financial liabilities ratio
- Asset sustainability ratio

For each key financial indicator, which are consistent with industry standards, appropriate targets have been nominated to enable meaningful performance measurement.

### **What are the Key Financial Indicators?**

The following is a brief explanation of the principal Key Financial Indicators used throughout the local government sector in South Australia:

- Operating Ratio – expresses the operating surplus or (deficit) as a percentage of general and other rates, net of rebates.

A positive ratio indicates the percentage of rates available to fund current and future capital expenditure. A negative ratio indicates the percentage increase in rate revenue that would have been required to achieve a break-even operating result.

When a breakeven result is achieved it means that ratepayers are meeting the costs of the services they are consuming (including depreciation).

- Net Financial Liabilities Ratio – indicates the extent to which net financial liabilities of the Council can be met by the Council’s total operating revenue.

Corporate and Community Services Report No. 76/2015 cont'd...

Where the ratio is falling it indicates the Council's capacity to meet its financial obligations from operating revenues is strengthening. Where the ratio is increasing it indicates a greater amount of Council's operating revenue is required to service its financial obligations.

- Asset Sustainability Ratio – indicates whether the Council is renewing or replacing existing physical assets at the rate at which they are wearing out.

Councils with a high ratio are replacing and renewing capital assets at a rate comparable to depreciation / wear.

Local Government sector targets for each of the key financial indicators are as follows:

- Operating Ratio: 0% - 15% over any five year period.
- Net Financial Liabilities: not to exceed total operating revenue or 100%
- Asset Sustainability Ratio: a range between 90% to 100% over any three year period.

**What do our results tell us?**

Key Financial Indicators Targets and Results relevant to the City of Mount Gambier over the past five (5) years are summarised in the following table.

Summary of Financial Results					
	2014/15	2013/14	2012/13	2011/12	2010/11
<b>Operating Ratio</b> (Target: 0% - 15% over 5 years)	6%	(4%)	2%	(4%)	(8%)
<b>Net Financial Liabilities Ratio</b> (Target: not to exceed 100%)	26%	31%	23%	27%	9%
<b>Assets Sustainability Ratio</b> (Target: 90% - 100% over 3 years)	53%	107%	85%	52%	51%

**Operating Ratio:**

A positive ratio indicates the percentage of rates available to fund current and future capital expenditure.

A negative ratio indicates the percentage increase in rate revenue that would have been required to achieve a breakeven operating result.

Result: A breakeven result (over five years) means that current day ratepayers are meeting the costs of services currently being consumed.

**Net Financial Liabilities Ratio:** where the ratio is falling it indicates the Councils capacity to meet its financial obligations from operating revenues is strengthening.

Where the ratio is increasing it indicates a greater amount of Councils operating revenue is required to service its financial obligations.

Result: Target (due to Councils recent major capital works) increasing a greater amount of Councils operating revenue is required to service its financial obligations.

**Asset Sustainability Ratio:** A high ratio indicates Council is replacing/renewing capital assets at a rate comparable to depreciation/wear.

Result: Target close to being met. Considerable focus to increase this ratio over recent years to ensure Council is replacing/renewing capital assets at a rate comparable to depreciation/wear.

Corporate and Community Services Report No. 76/2015 cont'd...

**How do we compare with other SA Councils?**

Each year the SA Local Government Grants Commission prepares what is commonly known as 'database' reports which are derived from SA Councils Annual Financial Statements and General Information Returns.

Corporate and Community Services Report No. 53/2015 in August 2015 provided a detailed breakdown of these statistics both in comparative form (with other SA Councils) and in a time series format (our statistics only).

Relevant extracts from that Report are repeated, for information, in this Report noting that the release of the 30<sup>th</sup> June, 2015 database reports are anticipated to be received in July, 2016 and will be subject to a further report.

**SA Local Government Grants Commission database reports 2013/2014  
FINANCIAL COMPARISON**

COUNCIL	TOTAL ASSETS (\$000)	TOTAL LIABILITIES (\$000)	TOTAL EQUITY (\$000)	Total Financial Assets (\$000)	Net Financial Liabilities (\$000)	Operating Surplus Ratio (%)	Net Financial Liabilities Ratio (%)	Asset Sustainability Ratio (%)
Alexandrina	418,339	35,780	382,559	5,768	30,012	(5)	83	41
Barossa	300,479	24,788	275,691	10,795	13,993	0	43	116
Gawler	207,980	16,579	191,403	5,880	10,697	(53)	49	119
Mount Gambier	197,640	9,418	188,222	2,459	6,959	(4)	31	244
Murray Bridge	264,970	16,016	248,954	8,387	7,629	(11)	26	(6)
Port Augusta	209,604	35,967	173,637	7,093	28,874	(42)	92	47
Port Lincoln	168,656	5,058	163,600	4,341	717	(2)	5	311
Victor Harbor	262,007	17,428	244,579	5,151	12,277	5	56	80
Whyalla	251,466	13,983	237,483	4,297	9,686	(16)	40	171

**SA Local Government Grants Commission database reports 2013/2014  
EXPENDITURE COMPARISON**

COUNCIL	Estimated Resident Population as 30/6/14	EMPLOYEE COSTS (\$000)	MATERIALS, CONTRACTS & OTHER EXPENSES (\$000)	FINANCE COSTS (\$000)	DEPRECIATION, AMORTISATION & IMPAIRMENT (\$000)	TOTAL OPERATING EXPENSES (\$000)	OPERATING SURPLUS / (DEFICIT) (\$000)
Alexandrina	25,136	11,873	15,738	1,576	9,257	38,461	(1,549)
Barossa	22,964	10,913	13,990	1,277	6,534	32,719	76
Gawler	22,219	8,211	9,626	811	12,237	30,919	(8,914)
Mount Gambier	26,246	8,772	8,467	262	5,907	23,408	(668)
Murray Bridge	20,740	13,480	11,202	618	6,080	31,477	(1,976)
Port Augusta	14,557	16,236	14,475	1,113	5,942	37,766	(6,176)
Port Lincoln	14,888	3,799	8,886	12	2,784	15,481	(192)
Victor Harbor	14,938	7,899	7,788	869	4,995	21,551	875
Whyalla	22,754	9,395	12,253	169	5,993	27,810	(2,694)

**Local Government Grants Commission Database  
Time Series Reports**

**ASSETS**

Year	Cash / Cash Equiv.	Other Receivables	Inventories	Land	Buildings	Infrastructure	Plant, Equipment	Other Assets	Total Assets
2009/10	9,696,000	1,638,000	44,000	28,012,000	53,120,000	43,618,000	4,842,000	1,406,000	142,376,000
2010/11	8,298,000	2,520,000	35,000	28,363,000	56,215,000	45,263,000	4,704,000	2,425,000	135,289,000
2011/12	981,000	1,470,000	47,000	41,026,000	112,109,000	56,625,000	4,840,000	2,946,000	220,042,000
2012/13	675,000	1,397,000	40,000	41,188,000	87,340,000	58,186,000	4,627,000	2,670,000	196,123,000
2013/14	1,173,000	1,286,000	37,000	40,858,000	86,810,000	60,343,000	4,749,000	2,384,000	197,690,000

**FINANCIAL**

Year	Total Liabilities	Total Financial Assets	Net Financial Liabilities	Total Equity	% Operating Surplus Ratio	Net Financial Liab. Ratio %	Asset Sustainability Ratio %
2009/10	9,059,000	11,334,000	(2,275,000)	133,317,000	2	(12)	55
2010/11	12,534,000	10,818,000	1,716,000	135,289,000	(8)	9	51
2011/12	8,432,000	2,451,000	5,981,000	211,612,000	(4)	27	52
2012/13	7,070,000	2,072,000	4,998,000	189,053,000	2	23	85
2013/14	9,418,000	2,459,000	6,959,000	188,222,000	(4)	31	107

Further information on the Local Government Associations Financial Sustainability Program can be found at <http://www.lga.sa.gov.au/page.aspx?u=769> which include a range of Information Papers, local government sector wide reports and general information on the Sustainability Program / Inquiry.

**RECOMMENDATION**

- (a) Corporate and Community Services Report No. 76/2015 be received for information.



**Grant HUMPHRIES**  
DIRECTOR – CORPORATE SERVICES

Sighted:



**Mark McSHANE**  
CHIEF EXECUTIVE OFFICER

## **CORPORATE AND COMMUNITY SERVICES REPORT NO. 2/2016**

**SUBJECT: TREASURY MANAGEMENT - ANNUAL REVIEW FOR 2014/2015**

**REF: AF11/810**

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*Goal: Governance*

*Strategic Objective: Demonstrate innovative and responsive organisational governance.*

### **1. INTRODUCTION**

1.1 Council has established a \$10m Cash Advance Debenture (CAD) variable interest rate loan facility on the following basis:

- \$5m on 17<sup>th</sup> June, 2013 for a fifteen year term
- \$5m on 17<sup>th</sup> August, 2015 for a fifteen year term
- floating interest rate (24 hour basis)
- interest rate reflects RBA cash rate
- drawdown may be in full or part
- floating rate principal may fluctuate and subject to 24 hours notice may be drawn/repaid and drawn again up to the available limit until maturity date
- surplus credit funds can temporarily reduce floating rate loan outstandings
- repayment of floating rate principal prior to facility expiry date is at the option of Council
- interest rate may be varied subject to 24 hours notice
- no application or preparation fees

1.2 Referenced in this Report are previous, recent Treasury Management/CAD Corporate and Community Services Reports:

- Corporate and Community Services Report 64/2011 (Annual Review)
- Corporate and Community Services Report 52/2012 (Annual Review)
- Corporate and Community Services Report 19/2013 (Increased CAD Loan Facility)
- Corporate and Community Services Report No. 68/2013 (Annual Review)
- Corporate and Community Services Report No. 75/2013 (Conversion to Fixed Loan)
- Corporate and Community Services Report No. 65/2014 (Annual Review)

### **2. CAD OPERATING 2014/2015**

2.1 CAD SUMMARY (as at 30<sup>th</sup> June, 2014) - from CCS Report 65/2014

- CAD credit limit \$12m
- funds allocated/committed to CAD
  - Balance as at 30<sup>th</sup> June, 2013 \$6,480,596
  - - 2013/2014 year - spent \$3,268,617
  - - 2013/2014 year - repayments \$518,000
  - Balance as at 30<sup>th</sup> June, 2014 \$9,231,213

2.2 CAD OPERATING 2014/2015

PROJECT	CAD COMMITMENT	CAD WIP (TO 15/16)
Landfill	\$582,000	\$506,000
Hospital	\$507,000	\$287,000
Rail Lands	\$811,000	\$444,000
CBD	\$757,000	\$128,000
<b>TOTAL</b>	<b>\$2,657,000</b>	<b>\$1,365,000</b>

Corporate and Community Services Report No. 2/2016 cont'd...

2.3 CAD SUMMARY (as at 30<sup>th</sup> June, 2015)

- CAD Credit Limit \$10m
- CAD Transactions 2014/2015:
  - Balance as at 30<sup>th</sup> June, 2014 \$9,231,000
  - 2014/2015 Expenditure \$2,657,000
  - 2014/2015 Revenue (repayments) \$866,000
- CAD Balance (committed) as at 30<sup>th</sup> June, 2015 \$11,022,000

Notes: Revenue includes: - Budgeted repayments \$449,000  
- Sale proceeds of land applied against debt \$417,000

2.4 CAD VARIABLE INTEREST MOVEMENTS

- commenced the year @ 4.75%
- reduced to 4.50% in February 2015
- reduced to 4.25 in May 2015
- closed the year @ 4.25%

2.5 CAD INTEREST PAYABLE

Council's 2014/2015 Budget provided for an interest payable estimate of \$370,000 on the use of the CAD facility for the financial year (based on an assumption that interest would be payable for 6 months of the year).

At years end, due to the internal management of Council's cash, interest paid on the use of the CAD facility for the financial year amounted to \$85,000 - a saving of \$285,000.

Assisting in returning this result was a number of factors including:

- major capital works projects funding not being required until late in the financial year
- success in grant funding for major capital works projects which in turn reduces Council's reliance on loan funding to complete projects

This budget saving has been reflected in progressive Budget reviews during the course of the financial year.

**3. TREASURY MANAGEMENT**

3.1 TREASURY MANAGEMENT POLICY

Council's Treasury Management Policy (T150) provides for the following in regard to interest rate risk exposures:

*Council has set range limits for both fixed and variable interest rate borrowings in order to minimise net interest costs on average over the longer term and at the same time manage interest rate movement risks within acceptable limits.*

3.1.1 *Fixed Interest Rate Borrowings*

*To ensure an adequate mix of interest rate exposures, Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve and thereafter maintain on average in any year, not less than 30% of its gross debt in the form of fixed interest rate borrowings.*

Corporate and Community Services Report No. 2/2016 cont'd...

*In order to spread its exposure to interest rate movements, Council will aim to have a variety of maturity dates on its fixed interest rate borrowings over the practically available maturity spectrum.*

*In circumstances where Council needs to raise new debt it will use the opportunity as necessary to increase its holdings of medium to long term borrowings (3 years or more duration).*

*Council also will ensure that no more than 25% of its fixed interest rate borrowings mature in any year.*

**3.1.2 Variable Interest Rate Borrowings**

*Council will restructure its portfolio of borrowings, as old borrowings mature and new ones are raised, to progressively achieve, and then maintain, not less than 30% of its gross debt on average in any year in the form of variable interest rate borrowings.*

*Council will establish, and make extensive use of either a long-term variable interest rate borrowing facility or the LGFA's Cash Advance Debenture facility that requires interest payments only and that enables any amount of principal to be repaid or redrawn at call. The redraw facility will provide Council with access to liquidity when needed.*

**3.2 CURRENT LOAN PROFILE**

As this entire process of Treasury Management matures we need to further develop our understanding of how Treasury Management affects our loan profile and the manner in which Councils debt is formally reported.

Council's traditional Fixed Interest loans (set loan period/interest rate) continue to be recorded and reported as they always have been.

Since moving to Treasury Management Council has introduced a variable interest (CAD) facility for loan funding requirements.

This is where the recording and reporting of Council's debt profile becomes complex.

On the one hand, via previous Budgets Council has allocated/committed variable loan funds to the value of \$11.022m as at 30<sup>th</sup> June, 2015.

	\$	%
Balance of Fixed Loans	3,375,000	23
Balance of Variable Loans	11,022,000	77
Gross Debt as at 30 <sup>th</sup> June, 2015	14,397,000	100

These recordings made annually via this Report are really "off system" recordings designed to track Council's approved loan borrowings/allocations to major projects and include annual repayments made as part of the annual budget process.

On the other hand Council's formal reporting process (Annual Audited Statements) records Council's overall debt at \$4.525m as at 30<sup>th</sup> June, 2015.



Corporate and Community Services Report No. 2/2016 cont'd...

The resultant variation is due to the effect of Treasury Management - any excess Council funds are deposited against Council's variable loan (CAD) loan facility and that essentially is the difference in what is allocated/committed to that of Council's actual debt position.

The holistic management of Council's cash resources is monitored daily and therefore any outstanding debt changes on a daily basis.

For example Council's CAD 'debt' rose to \$3.234m at the end of July 2015 being the low point of the year in terms of Council's cash holdings. However following the first rate instalment period in September Council's CAD 'debt' has been reduced to nil.

**3.3 FUTURE LOAN PROFILE**

No provision has been made in Council's 2015/2016 Budget for any new borrowings.

However, an amount of \$1.365m allocated via previous Budgets but not spent on major capital works projects is also carried forward to 2015/2016 as 'Work in Progress'.

Taking into account the aforementioned proposed transactions Council's allocated/committed loan profile as at 30<sup>th</sup> June, 2016 is anticipated to be:

	\$	%
Balance of Fixed Loans	3,191,000	21
Balance of Variable Loans	11,707,000	79
Gross Debt as at 30 <sup>th</sup> June, 2016	14,898,000	100

As referenced to in 3.2 these recordings are really "off system" estimates designed to track Councils approved loan borrowings/allocations to major projects, for budgetary purposes.

Council's formal reporting process (Annual Audited Statements) will only record the 'actual' Council debt at the time, for example as at 30<sup>th</sup> June, 2015 Council's formally reported debt was \$4.525 million.

**3.4 LONG TERM FINANCIAL PLAN (LTFP)**

Council's LTFP (December, 2013) provides for the following:

YEAR	AMOUNT	ACTUAL
2013/2014	\$5.1M	\$3.269
2014/2015	\$1.9M	\$2.266
	\$7m	\$5.9

The LTFP estimates repayments being made on an overall debt amount of \$9.49m as at 30<sup>th</sup> June, 2015.

In fact, Council, as at 30<sup>th</sup> June, 2015 is making repayments on an overall debt amount of \$4.7m - a significant positive variance to the LTFP predictions, - a result of Council's Treasury Management Operations.

#### 4. SUMMARY

Council first adopted its Treasury Management Policy in 2008 and from 2009 commenced introducing associated Treasury Management practices at the time Council commenced its major capital works upgrade program which included new Library, Main Corner, CBD redevelopment, Caroline Landfill and then continued with the former Hospital purchase and demolition and the Rail Lands redevelopment.

In the pre planning for these major projects it was anticipated that the majority of the funding would be sourced by way of loans, topped up with either committed or anticipated grant funds.

Over that period of time Council has been extremely fortunate in that:

- (i) it has been successful in securing grant funding well in excess of what was anticipated;
- (ii) the use of Treasury Management practices (using a combination of use of own funds and variable interest loan facility instead of the traditional local government fixed interest loan facilities) combined with generational low loan interest rates has significantly reduced loan repayments;
- (iii) the economic conditions which saw extremely competitive contractor rates.

Previous Treasury Management annual reports have always indicated that at some time Council will need to convert variable rate loan funds to a fixed rate loan to ensure Councils regular cash flow is maintained (and also to continue to honour Councils Treasury Management Policy).

At this point in time it is considered that this action is not required and is in Council's best interests to continue current practices due to:

- (i) the continuing low cash rate;
- (ii) the prediction that the cash rate will remain relatively stable for the foreseeable future;
- (iii) Council's cash position being satisfactory.

However, in saying this there will come a time when Council will require that additional funding to maintain internal cash flow which in turn will add considerably to annual operating budgets (fixed interest loan repayments).

In Council's best interests this reimbursing loan may be required in the next twelve months in order to take advantage of low interest rates and to avoid the inevitable rise in interest rates.

#### **RECOMMENDATION**

- (a) Corporate and Community Services Report No. 2/2016 be received;

Corporate and Community Services Report No. 2/2016 cont'd...

- (b) Council, given the financial benefits being gained, continue the current Treasury Management practices whilst generational low interest rates are being experienced.

**Grant HUMPHRIES**  
DIRECTOR – CORPORATE SERVICES

Sighted:

**Mark McSHANE**  
CHIEF EXECUTIVE OFFICER

21<sup>st</sup> December, 2015  
MJT

## CORPORATE AND COMMUNITY SERVICES DRAFT REPORT NO. 03/2016

**SUBJECT: ASSET REVALUATION STRATEGY**

**REF: AF11/713, AF11/2051, AF12/199**

*Goal: Governance*

*Strategic Objective: Demonstrate innovative and responsive organisational governance.*

### Background

Reference is made to the previously adopted Asset Revaluation Strategy detailed in Corporate and Community Services Report No. 73/2013 dated October 2013. The report, in brief, identified Councils various asset categories and provided an indicative asset revaluation schedule for each asset category on a rolling program basis rather than the previous practice of completing a revaluation of all asset categories periodically but in the one financial year.

The strategy proposal was endorsed by Council's Audit Committee and the Council Auditor.

### Asset Revaluation Strategy

The adopted strategy that has since been implemented provides for an ongoing rolling revaluation program for the various asset categories on the following basis;

- Land, buildings and structures – continue with a regular 'full' revaluation process but during intervening years indexation be applied to replacement costs and demolition values. Council's External Valuer suggest this indexation be the Building Price Index (BPI) that would reflect the movements in values. Land component updates can also be provided from market evidence from the valuers database at a marginal cost.
- Infrastructure – as Council's infrastructure is currently 'condition rated' every two years, the recommended revaluation will co-incide with that process. For the intervening years infrastructure assets will be endorsed by the Local Government Price Index (LGPI) Note <sup>1</sup>.

The most recent LGPI recorded as at 30<sup>th</sup> June, 2013 was 2.8 % CPI for the same period was recorded as 2.0 %.

- Plant and Equipment – revalued internally on a three (3) yearly basis.
- Minor Plant, Library Materials and Office Equipment – in overall terms, values and material will be reviewed on an ongoing basis.

For future guidance the following indicative asset revaluation scheduling matrix was adopted as part of the strategy:

Asset Category	Financial Year									
	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24
Land	x	x	√	x	x	x	√	x	x	x
Buildings and Structures	x	x	√	x	x	x	√	x	x	x
Infrastructure	√	x	√	x	√	x	√	x	√	x
Plant and Equipment	x	√	x	√	x	√	x	√	x	√
Minor Plant	√	√	√	√	√	√	√	√	√	√
Library Materials	√	√	√	√	√	√	√	√	√	√
Office Equipment	√	√	√	√	√	√	√	√	√	√

*Legend:*

*√ = 'full' revaluation*

*x = interim revaluation*

Corporate and Community Services Report No. 03/2016 cont'd...

<sup>1</sup> The Local Government Price Index (LGPI) measures price movements faced by Local Government in South Australia in respect of their purchases of goods and services. As the mix of goods and services purchased by local Councils is quite different from that typically consumed by households, overall price movements faced by Local Government Councils may differ markedly from those faced by households. Overall price movements indicated by the Consumer Price Index (CPI) - which measures changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households - may therefore not accurately reflect price movements faced by Local Councils.

Recommended Amendments to the Strategy

Council continues to refine its overall asset management regime and following discussions with Council's Auditor is now recommending that the following asset categories be deleted from the Asset Re-valuation Strategy:

- Plant and Equipment
- Minor Plant
- Library Materials
- Office Equipment

This recommendation is based on overall minor nature of those asset categories in terms of materiality.

Council's asset values recorded in the Financial Statements dated 30<sup>th</sup> June, 2015 were:

• Land	\$40,818,000	18%
• Buildings	\$87,891,000	38%
• Infrastructure	\$94,772,000	41%
• All other (combined)	\$6,868,000	3%
• Total Assets	\$230,349,000	100%

The Australian Accounting Standards (AASB1031) provides that in terms of materiality "*the following quantitative thresholds may be used as guidance in considering the materiality of the amount of items included in the comparisons:*

- (a) *an amount which is equal or greater than 10 per cent of the appropriate base amount may be presumed to be material unless there is evidence or convincing argument to the contrary; and*
- (b) *an amount which is equal to or less than 5 per cent of the appropriate base amount may be presumed not to be material unless there is evidence, or convincing argument, to the contrary."*

Members will note the combined amount of the identified asset categories is only 3% of the overall asset base.

The impact of these amendments will result in a revised indicative asset revaluation schedule, as follows:

Asset Category	Financial Year									
	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Land	√	x	x	√	x	x	√	x	x	√
Buildings and Structures	√	x	x	x	√	x	x	x	√	x
Infrastructure	√	x	√	x	√	x	√	x	√	x

Legend:

√ = 'full' revaluation

x = interim revaluation

Corporate and Community Services Report No. 03/2016 cont'd...

**RECOMMENDATION**

- (a) Corporate and Community Services Report No. 03/2016 be received;
- (b) Council's Asset Revaluation Strategy be amended by deleting the following asset categories from the Asset Management / Revaluation regime:
- Plant and Equipment
  - Minor Plant
  - Library Materials
  - Office Equipment
- (c) Council adopt the following indicative asset revaluation schedule:

Asset Category	Financial Year									
	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Land	√	x	x	√	x	x	√	x	x	√
Buildings and Structures	√	x	x	x	√	x	x	x	√	x
Infrastructure	√	x	√	x	√	x	√	x	√	x

*Legend:*

√ = 'full' revaluation

x = interim revaluation

**Grant HUMPHRIES**  
DIRECTOR – CORPORATE SERVICES

**Mark McSHANE**  
CHIEF EXECUTIVE OFFICER

23<sup>rd</sup> December, 2015  
TLG

## Memorandum

TO: MAYOR  
COUNCILLORS

CC: CHIEF EXECUTIVE OFFICER  
DIRECTOR CORPORATE SERVICES  
DIRECTOR OPERATIONAL SERVICES  
MANAGER - COMMUNITY SERVICES & DEVELOPMENT  
TEAM LEADER EXECUTIVE SUPPORT

REF: AF11/903

RE: **CONFLICT OF INTEREST**

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Dear Councillors

Further to Conflict of Interest and Meeting Procedures training held on Tuesday 23<sup>rd</sup> February 2016, the following information is provided for Members with respect to the implications of the new Conflict of Interest provisions that are contained within the amendments to the Local Government Act 1999 and expected to commence shortly (anticipated late March/April 2016).

### MATERIAL, ACTUAL OR PERCEIVED CONFLICT OF INTEREST

The three new Conflict of Interest categories can be briefly summarised as follows:

**Material** - where any of a defined list of persons (substantial list) would gain a benefit, or suffer a loss (whether directly or indirectly, personal or pecuniary) depending on the outcome of the consideration of the matter at the meeting.

*Where a material conflict of interest exists the Member must leave the meeting and must not be able to view, hear or participate in any discussion or vote.*

**Actual** – where a Member has a conflict of interest (not being a material conflict of interest) between their own interests and the public interest that might lead to a decision that is contrary to the public interest.

**Perceived** – where from the perspective of an impartial, fair-minded person it could reasonably be perceived that a Member has a conflict of interest in a matter.

*Where an actual or perceived conflict of interest exists the Member must inform the meeting of the interest and how (if they propose to participate in the meeting) they intend to deal with the actual/perceived conflict of interest.*

### MINUTE KEEPING REQUIREMENTS

The disclosure and minute keeping requirements of the new Conflict of Interest regime will require the minutes of (all Council and (sub)Committee) meetings to include (for any Conflict of Interest) the following:

- the Member's name;
- the nature of the interest, as described by the Member; and

- if the Member took part in the meeting or was in chamber during the meeting under Ministerial approval (*material conflict of interest only*)

and additionally for actual/perceived conflict of interest:

- the manner in which Member dealt with the actual conflict of interest;
- if the Member voted, the manner in which he/she voted;
- how the majority of Members voted.

## WIDENED SCOPE OF CONFLICT OF INTEREST PROVISIONS

Members need to be aware that several exemptions that are specified or implied in the current/outgoing Conflict of Interest regime that will no longer apply in the new/commencing regime.

In particular, the following exemptions/circumstances no longer apply:

- no exemption for member/office holder of a non-profit association.
- no exemption for member of a body that includes Council appointees/nominees.
- no exemption for substantial class of persons.
- no provision for Member to remain to ask and answer questions.

Further, the legislative provisions (defined list of persons) identify the following for the purpose of a material conflict of interest:

- *a body corporate of which the member is a director or a member of the governing body*
- *a beneficiary under a trust or an object of a discretionary trust of which the member is a trustee.*

The combined implications of the above are yet to be fully appreciated, however on initial consideration it appears material conflicts of interest may arise for a significant range of Council Board/Committee appointees. Elected Members are involved with a wide range of outside committees and organisations that includes, but goes beyond:

- Limestone Coast Local Government Association Board Members and associated Committee/Group appointees
- Members of Council's Junior Sports Assistance Fund and Cemetery Trust
- Members of the DC Grant Airport Committee
- Members of Queen Elizabeth Park Trust and Riddoch Art Gallery
- Elected Members in their personal capacity are Board Members/Directors or even committee members for a community, sporting or other business association.

Further consideration would need to be given to any conflicts arising from such involvement.

The legislative provisions do provide for 'ordinary business' exemptions (matters of ordinary Council business that are yet to be prescribed). At this stage the draft list of ordinary business prepared by the LGA only comprises:

- the adoption or amendment of a strategic management plan under section 122 of the Act;
- the adoption or revision of an annual business plan or budget under section 123 of the Act;
- the declaration of rates (other than a separate rate) or a charge with the character of a rate;



- considering representation reviews; and
- deciding on council member training and development opportunities, where provided for in a council's training and development policy or plan.

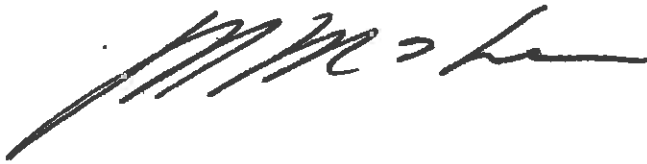
#### FORMS / ASSISTANCE

Due to the requirements for minute record keeping a draft Pro-Forma (attached) is recommended to be used by Members (which includes Elected and non-Elected Members of Council and Committees).

The form should be completed and provided to the minute taker prior to the commencement of the relevant meeting(s).

Other Conflict of Interest documents as provided at the recent training sessions as well as the LGA Conflict of Interest Guidelines are also attached for Members further information.

Please do not hesitate to contact Council's Manager – Governance & Property - Michael McCarthy, Team Leader Executive Support - Lynne Dowling, or myself if you have any queries, concerns or potential conflict of interest example that you wish to discuss further.



**Mark McSHANE**  
CHIEF EXECUTIVE OFFICER  
10<sup>th</sup> March, 2016

## CONFLICT OF INTEREST DISCLOSURE FORM

I, \_\_\_\_\_, have received a copy of the agenda  
(insert name)

for the (**\*ordinary/\*special**) meeting of

the \_\_\_\_\_ **\*Council/\*Committee/\*Board** [*\*delete as relevant*]  
(insert full name of Committee/Sub-Committee/Board)

to be held on: \_\_\_\_\_  
(insert date of meeting)

### CONFLICT OF INTEREST DISCLOSURE

I consider that I have a:

**\*material** conflict of interest pursuant to section 73 (complete and sign below)

**\*actual** or **\*perceived** conflict of interest pursuant to section 74 (complete and sign overleaf)  
[*\*delete that which is not applicable*]

of the *Local Government Act 1999* ("the LG Act") in relation to the following agenda item:

\_\_\_\_\_  
(insert details - include Agenda Item No, Report Number, Item/Report Subject Title)

which is to be discussed at that meeting.

### NATURE OF MATERIAL CONFLICT OF INTEREST

The nature of my **material** conflict of interest is as follows [*ensure sufficient detail is recorded, including the reasons why you (or a person prescribed in section 73(1) of the LG Act) stands to obtain a benefit or suffer a loss depending on the outcome of the consideration of the matter at the meeting of the Council in relation to the agenda item described above*].

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In accordance with section 74(1)(b) I will be leaving the meeting room while the matter is being discussed and voted on

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

In accordance with section 75A(2)(b) I propose **\*to/\*not to** *[delete as appropriate]* participate in the meeting in relation to the matter.

#### NATURE OF ACTUAL CONFLICT OF INTEREST

The nature of my **actual** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why the conflict between your interests and the public interests might lead to a decision that is contrary to the public interest in relation to the agenda item described above].*

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Where I have proposed to participate in the meeting I intend to deal with my **actual** conflict of interest in the following transparent and accountable way *[ensure sufficient detail is recorded as to the manner in which you intend to deal with the actual conflict of interest in a transparent and accountable way].*

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OR

#### NATURE OF PERCEIVED CONFLICT OF INTEREST

The nature of the **perceived** conflict of interest is as follows *[ensure sufficient detail is recorded, including the reasons why you consider that an impartial fair-minded person could reasonably consider that you have a perceived conflict of interest in the matter].*

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Where I have proposed to participate I intend to deal with the **perceived** conflict of interest in the following transparent and accountable way *[ensure sufficient detail is recorded as to the manner in which you intend to deal with the perceived conflict of interest in a transparent and accountable way].*

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Signature

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Date

## **CORPORATE AND COMMUNITY SERVICES REPORT NO. 19/2016**

**SUBJECT: RISK MANAGEMENT FRAMEWORK UPDATE & POLICY REVIEW**

**REF: AF11/1950, AF11/1955**

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*Goal: Governance*

*Strategic Objective: Demonstrate innovative and responsive organisational governance.*

The Manager Governance & Property reported:

Council's Audit Committee reviews several policies as part of its annual work plan, including Council's [Fraud & Corruption Prevention Policy F225](#) and [Whistleblowers Protection Policy W150](#) that were last reviewed and adopted in April 2015.

This report presents these and Council's [Risk Management Framework Policy R305](#) for review along with an update on Council's risk and governance framework and activities. No changes are proposed to be

### Policy & Legislative Framework

In addition to those abovementioned several other of Council's 80 formal policies that guide and direct regular Council activities specifically contribute to the management of risk, including:

- [P415 - Prudential Management](#)
- [C290 - Internal Review of Council's Decisions](#)
- [P420 - Procurement, & Disposal of Land and Assets](#)
- [R305 - Risk Management Framework](#)
- [I105 Internal Controls](#)

In preparing for the implementation of the broadened audit function (as summarised in a separate report attached to this agenda) Council's Internal Controls Policy I105 has been reviewed in conjunction with Policy R305 Risk Management Framework. Comprising part of Council's risk management activities and due to the procedural nature of the Internal Controls Policy I105, it is recommended that Policy I105 be revoked, its content adapted as a procedural framework for internal controls, and that be made in Council's Risk Management Framework Policy R305 to reference internal financial controls.

The Procurement, & Disposal of Land and Assets Policy has been presented to the March 2016 Corporate & Community Services and Council meetings for review. The other listed policies are scheduled for review between August 2017 and November 2019.

### Risk Register

The broad range of activities that comprise Council's Risk Management Framework as set out diagrammatically in Policy R305 include (amongst other things) a Risk Register. Council's 2015 Interim Audit identified that a Council's Risk Register had not been reviewed recently.

In response, a Risk Register Review Team has been convened reporting to Council's Senior Management and Management Executive Teams. The Risk Register Review Team is charged with reviewing/updating the Risk Register and making recommendations for further improvements in the recording and reporting of Council's risk management activities.

The Risk Review Team has since commenced a continuing process of updating the Risk Register to include more relevant and detailed information/references of Council's risk management activities, responsibilities and reporting.

The revised Risk Register now identifies a number of other (sub)registers and systems that address specific risk categories in greater detail and comprise important components of the Council's overall organisational Risk Register, for example:

Corporate and Community Services Report No. 19/2016 cont'd...

- Work, Health and Safety 'Hazard Register' and associated WHS systems
- Financial Internal Controls Register
- Procurement documentation and systems
- Legislative Compliance Register and associated Delegation/Authorised Officer Registers

An initial recommendation of the Risk Register Review Team has been that the Risk Register be included as a standing item on monthly Senior Managers Team meeting agendas to highlight it's importance amongst Council's administrative activities and to encourage/invite the presentation of new and changing risks for the continuing update of the Risk Register.

Business Continuity Plan

A further matter being addressed in the review of the Risk Register is to identify those key organisational service activities that warrant the development of business continuity measures and inclusion in Council's Business Continuity Plan to ensure a timely return to 'business as usual' for such activities should normal Council business be significantly disrupted.

It is envisaged that an updated Business Continuity Plan will be developed for those identified organisational activities during the remainder of the 2015/16 year.

**RECOMMENDATION**

- (a) Corporate and Community Services Report No. 19/2016 be received;
- (b) Council hereby re-adopts the following (unchanged) Policies as provided with this report:
  - F225 – Fraud and Corruption Prevention
  - W150 – Whistleblowers Protection
- (c) Council hereby adopts replacement Council Policy R305 – Risk Management Framework Policy, as provided with this report;
- (d) Council hereby revokes Policy I105 Internal Controls;
- (e) Council makes the necessary amendments to Council's Policy Manual Index.

**Michael McCARTHY**  
MANAGER GOVERNANCE & PROPERTY

Sighted:

**Mark McSHANE**  
CHIEF EXECUTIVE OFFICER

15<sup>th</sup> February, 2016  
MMcC

Version No:	3
Issued:	21 <sup>st</sup> April, 2016
Next Review:	April, 2017

### 1. INTRODUCTION

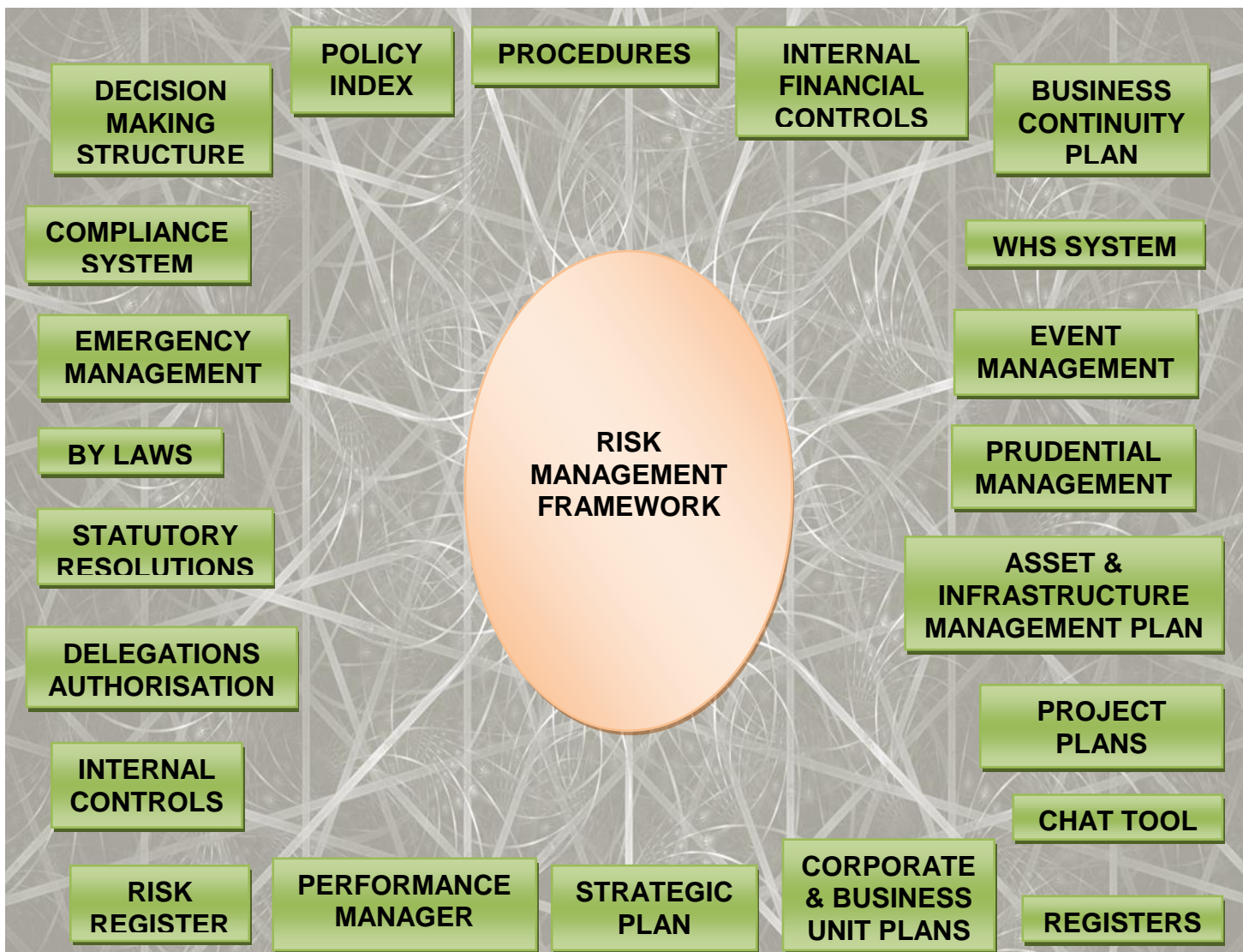
The City of Mount Gambier (“Council”) is committed to protecting its employees, assets and community from potential threats, realising benefits from potential opportunities, ensuring efficient and effective operations, minimising uncertainty in achieving it’s goals and objectives toward it’s vision that *‘Mount Gambier is the most liveable City in Australia, where the people in the community are secure, prosperous, healthy and valued’*.

This document sets out the Policy of Council in relation to the management of it’s risk in decision making, administrative and operational activities.

### 2. PURPOSE

Risk Management requires more than simply adopting a policy. The purpose of this document is to support awareness and commitment to Council’s existing Risk Management tools, systems, procedures and practices (“**Risk Management Framework**”) and to develop a culture of continuous improvement that includes embedding risk management into all Council decisions and activities.

Components of Council’s **Risk Management Framework** are presented in the following diagram:



	<b>R305 RISK MANAGEMENT FRAMEWORK</b>	Version No:	3
		Issued:	21 <sup>st</sup> April, 2016
		Next Review:	April, 2017

### 3. SCOPE

This Policy applies to all Employees, Elected Members, Committee Members, Contractors and Volunteers of Council and provides guidance and assists Council in understanding that Risk Management is central to all Council decision making, administrative, and operational activities.

### 4. CONTEXT

This Policy document does not stand alone in addressing Council's Risk Management.

As illustrated in the **Risk Management Framework** diagram, Council is involved in a diverse range of activities and encounters extensive variety of risks that necessitate the use of many different processes, tools and recording/reporting and review mechanisms for their identification and management.

Council can be exposed to many risks including those associated with:

- |                        |                            |
|------------------------|----------------------------|
| • Safety & Welfare     | • Asset management         |
| • Information services | • Business development     |
| • Procurement          | • Compliance & Legal       |
| • Project management   | • Financial                |
| • Strategic management | • Governance               |
| • Environment          | • Human resources          |
| • Public relations     | • Political                |
|                        | • Interruption to Business |

In this context, it is expected that all Council Employees, Elected Members, Committee Members, Contractors and Volunteers will participate in identifying and assessing the potential risks associated with significant decisions, recommendations, actions and contractual arrangements, with a view to:

<b>IDENTIFY EVALUATE TREAT</b>	<b>R</b>	<ul style="list-style-type: none"> <li>• identify &amp; evaluate risks to determine whether (or not) the risk is acceptable and document risk issues</li> <li>• act to prevent risk situations from arising</li> <li>• act to resolve risk situations that arise</li> <li>• refer risks for appropriate management</li> <li>• mitigate risks relating to stewardship of public resources</li> </ul>
<b>ANALYSE MONITOR &amp; COMMUNICATE</b>	<b>S  K</b>	<ul style="list-style-type: none"> <li>• record known/accepted risks (Risk Register)</li> <li>• manage chance/consequences of known/accepted risks</li> <li>• Action/Refer (as appropriate) to: <ul style="list-style-type: none"> <li>▪ <i>Change Policy/Processes</i></li> <li>▪ <i>Business Continuity Plan</i></li> <li>▪ <i>LGA Risk Services</i></li> </ul> </li> <li>• Continuously monitoring/recording/report</li> </ul>

 City of Mount Gambier	<b>R305 RISK MANAGEMENT FRAMEWORK</b>	Version No:	3
		Issued:	21 <sup>st</sup> April, 2016
		Next Review:	April, 2017

**REVIEW**

**IMPLEMENTATION**

- Continuously reviewing processes to achieve improvements in Risk Management and organisational activities
- Reduce the likelihood and consequences of unacceptable risks by discontinuing associated activities
- Action improvements based on practicality and cost benefit analysis

**5. RISK MANAGEMENT PROCESS**

This Framework/Policy does not provide direction for the management of any particular risk situations as this is relative to the circumstances in which it has arisen. Council has a range of policies, procedures, systems, plans and mechanisms in place for known risks associated with each Council workplace and Council activities, and to assist the identification of potential risks.

Further direction on the management of any specific risk matter should be sought from the relevant Team Leader, Manager, or Director, Work Health & Safety Representative, Work Health & Safety Committee, or from Council's Human Resources Manager, Manager - Governance & Property, Management Accountant or Work Health & Safety Coordinator.

**6. RISK MANAGEMENT RESPONSIBILITIES**

Whilst it is the responsibility of the Council and the Chief Executive Officer to provide and resource the various components of Council's Risk Management Framework, every Council Employee, Elected Member, Committee Member, Contractor and Volunteer has some role and responsibility in the management of Council's risk.

The management of each component within Council's Risk Management Framework are the responsibility of one or more Directors, Managers or Team Leaders, or other officers or committees within the Council organisation and decision making structure.

The Management Executive Team bears responsibility for ensuring the components of the Risk Management Framework operate in a manner that brings about a robust risk management system that protects its employees, assets and community from potential threats, realises benefits from potential opportunities, ensures efficient and effective operations and minimises uncertainty in achieving Council's goals, objectives and vision.

Council Employees, Elected Members, Committee Members, Contractors and Volunteers share responsibilities as part of the requirements of their role and/or Code of Conduct to act in accordance with Council Policies, Procedures and Frameworks and follow appropriate directions, with further obligations and responsibilities relating to workplaces imposed under Work Health & Safety Law and other relevant legislation



 City of Mount Gambier	<b>R305 RISK MANAGEMENT FRAMEWORK</b>	Version No:	3
		Issued:	21 <sup>st</sup> April, 2016
		Next Review:	April, 2017

Further the Management Team must adopt a risk management approach to identifying and assessing risks and apply cost/benefit analysis in the development of financial internal controls.

Some critical shared responsibilities include appropriate induction, training and development, knowledge of worksite and duties and procedures relating to their position, including the relevant components of Council's Risk Management Framework.

This document emphasises that Council is a large organisation, undertaking diverse activities and risks and it is the responsibility of everyone to ensure their own, those around them and those to/and for whom they are responsible, awareness of the **Risk Management Framework** components applicable to their position and work area.

## 7. REVIEW & EVALUATION

Responsibility for review of this Policy is tasked to the Audit and Work Health Safety Committees, Management Executive Team, Senior Managers Group and Management Accountant.

## 8. AVAILABILITY OF POLICY

This Policy will be available for inspection at Council's principal office during ordinary business hours and on the Council's website [www.mountgambier.sa.gov.au](http://www.mountgambier.sa.gov.au). Copies will also be provided to interested members of the community upon request, and upon payment of a fee in accordance with Council's Schedule of Fees and Charges.

	<b>R305 RISK MANAGEMENT FRAMEWORK</b>	Version No:	3
		Issued:	21 <sup>st</sup> April, 2016
		Next Review:	April, 2017

File Reference:	AF11/1738
Applicable Legislation:	Local Government Act 1999
Reference: Strategic Plan – Beyond 2015	Goal 5, Strategic Objective 4 and 5
Related Policies:	I105 Internal Controls F225 Fraud & Corruption Prevention P415 Prudential Management
Related Procedures:	One System (Work Health & Safety Procedures) CHAT Assessment Tool Internal Control Framework (previously known as I105 Internal Controls Policy)
Related Documents:	Project Plan Template Risk Register Business Continuity Plan Statutory Resolutions AS/NZS ISO 31 000: 2009: Better Practice Model, Financial Internal Controls for South Australia

## DOCUMENT DETAILS

Responsibility:	MANAGER - GOVERNANCE & PROPERTY
Version:	3.0
Last revised date:	21 <sup>st</sup> April, 2016
Effective date:	21 <sup>st</sup> April, 2016
Minute reference:	21 <sup>st</sup> April, 2016 Corporate and Community Services, Item #
Next review date:	April, 2017
<u>Document History</u>	
First Adopted By Council:	9 <sup>th</sup> May 2000 (Superceded Policy R300)
Reviewed/Amended:	July 2014, 18 <sup>th</sup> August, 2015, 21st April, 2016

## **AUDIT COMMITTEE REPORT 01/2016**

**SUBJECT: UPDATE ON FINANCIAL INTERNAL CONTROLS**

**REF: AF11/1950**

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The appointment of the Management Accountant position began 7<sup>th</sup> March, 2016. It is within the scope of this role to manage the Council's Financial Internal Controls Regime.

The Internal Audit Charter (see attached) has been prepared as an operating document setting out the objectives of a person(s) working in the role of Internal Audit, namely the Management Accountant and/or a person with delegated responsibility by the Management Accountant and/or Director of Corporate Services.

The Better Practice Model, Financial Internal controls for South Australia has been used as a base to identify, rate and evaluate potential risks. There are approximately 93 categories of risk that have been identified and in excess of 400 possible controls to be reviewed under these categories. These identified financial internal controls form part of Council's overall Risk Management Framework and Risk Register.

Firstly, the focus is to review extreme and high risks as identified in the internal control risk register. Due to the nature of Extreme and High risks, these are to be reviewed annually on an ongoing basis. Following this, all other risks (Moderate and Low) are to be reviewed on an ongoing basis over a three year rolling period.

A report of recommendations to mitigate risks will be submitted to the Management Executive Team and Audit Committee quarterly (in line with proposed Audit Committee meetings) by the Management Accountant.

In conjunction with the Corporate and Community Services Report No.19/2016, a review has been undertaken of policy R305 Risk Management Framework and proposed amendment forwarded for recommendation which references internal financial controls. Due to the procedural nature of the existing Internal Controls Policy I105, it is recommended that the policy be revoked and further adapted as a procedural framework for internal controls.

### **RECOMMENDATION**

- (a) Audit Committee Report No. 01/2016 be received;
- (b) The Internal Audit Charter be endorsed.

**Kahli ROLTON**  
MANAGEMENT ACCOUNTANT

Audit Committee Report 01/2016 continued.....

Sighted:

**Grant HUMPHRIES**  
DIRECTOR CORPORATE SERVICES

15<sup>th</sup> March, 2016  
KROL



City of  
Mount Gambier

## Internal Audit Charter

### **Background:**

International Standards for the Professional Practice of Internal Auditing have been established by The Institute of Internal Auditors to provide a framework for performing, promoting and evaluating internal audit activities and performance.

### **Standard 1000 – Purpose, Authority and Responsibility**

*The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter.*

In line with the International Professional Practices Framework (IPPF) relevant standards for Internal Audit, the following Internal Audit Charter aims to establish the role of the internal audit position within the City of Mount Gambier.

### **Purpose:**

The internal auditor's role is primarily one of providing independent assurance over the internal controls and risk management framework of Council. It is an overarching consultative role to the Chief Executive Officer, Directors and Council Members and is responsible for evaluating and monitoring the adequacy and effectiveness of Council's internal control and risk management policies.

## **Objectives:**

In line with the City of Mount Gambier's responsibilities to the community and vision for the future, the following four objectives are anticipated to be provided by the role of internal audit:

- To improve and add value to the effectiveness of Council operations.
- Support good internal governance and risk management.
- Instil public confidence in the effective operations of Council.
- Reduce non-traditional areas of risk such as risk of fraud and non-compliance with relevant regulations.
- Contribute to the effectiveness of the External Audit.

## **Reporting Chain:**

Internal audit reports direct to the Director of Corporate Services on behalf of the Chief Executive Officer and Audit Committee. If a matter involves the Chief Executive Officer or Director of Corporate Services, alternative reporting to the Mayor and/or Governance Officer is required.

## **External Audit Relationship:**

External audit is primarily focused on providing an opinion in regards to the statutory reporting of the annual financial statements for external users. A sound internal audit may see a reduction in external audit time required to make appropriate assurances.

## **Avoidance of relevant Threats:**

To ensure high levels of objectivity and independence are maintained internal audit's involvement in the day-to-day operations of Council should be kept minimal and rotation of duties are necessary to remove threats of familiarity when executing work where resources allow.

The City of Mount Gambier proposes that professional relationships be established with other councils in the local region where they are in agreeance to effect a sharing of internal audit functions. Regional or inter-council sharing of internal audit functions is important to ensure threats of familiarity, independence and objectivity are minimalised.

In line with IPPF Standard 1120, 1130 and all its subsections, internal auditors must try to avoid conflict of interests. In order to remain impartial the following processes are recommended:

- Where an internal auditor has held responsibility within the last two (2) years for a particular operation/service within Council, an alternative auditor is used to provide independent assurance over that section. An example may be a member from the Executive Team engaged to provide assurance on the balance cash funds on hand.
- Should an internal auditor provide extensive consulting services regarding a particular operation/service of Council an alternative auditor is used to provide assurance on that same operation/service.
- Internal auditors are rotated periodically whenever it is practical to do so. It is acknowledged that within a medium size entity such as the City of Mount Gambier, this is not practical and may only be achieved through regional or inter-council sharing of such functions.
- Potential threats to objectivity and independence require disclosure.

**Audit Plan:**

All risks identified per the internal controls register are to be reviewed over a rolling three year period, with the exception of Extreme Risks which are to be reviewed annually. It is recommended that the audit plan be reviewed at least annually to ensure it aligns with the City of Mount Gambier’s risk profile and items of interest are included on the current register for assurance.

Submitted by: Kahli Rolton, Management Accountant

Authorised By: \_\_\_\_\_

Date: \_\_\_\_\_

Audit Committee (Chair)

