

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE OF  
THE BAROSSA COUNCIL**  
held in the Council Chamber 43-51 Tanunda Road, Nuriootpa, on  
Thursday 11 February 2016 commencing at 3:30 pm.

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1. **WELCOME**

Mr Peter Brass welcomed everyone to the meeting at 3:33pm.

2. **PRESENT**

Mr Peter Brass, Mr James Heuzenroeder, Ms Tanya Johnston, Cr Angas

**Invited Staff Members and Auditors**

Mr Martin McCarthy, Chief Executive Officer

Ms Jo Thomas, Director Corporate & Community Services

Mr Mark Lague, Manager Financial Services

Ms Vicky Rohrlach, Senior Accountant

Mr Alan Jackson, Risk Manager

Ms Nicole Rudd, Internal Controls Compliance Officer

Ms Susie Roehr, Executive Assistant Corporate & Community Services

3. **APOLOGIES**

Cr Scotty Milne

4. **CONFIRMATION OF MINUTES FROM PREVIOUS MEETING**

**MOVED** Mr Heuzenroeder that the Minutes of the Ordinary Audit Committee Meeting held 5 November 2015, as circulated be confirmed as a true and correct record of the proceedings of the meeting.

**Seconded** Ms Johnston

**CARRIED**

**MOVED** Cr Angas that the Confidential Minutes of the Audit Committee Meeting held 5 November 2015, as circulated be confirmed as a true and correct record of the proceedings of the meeting.

**Seconded** Mr Heuzenroeder

**CARRIED**

5. **BUSINESS ARISING FROM PREVIOUS MINUTES**

Nil

6. **CONSENSUS AGENDA**

6.1 **REPORTS FOR INFORMATION**

Council Officers spoke to their reports. Director of Corporate and Community Services explained the amendments to the Audit Committee Terms of Reference ensured the Committee is now operating in compliance with Section 17 of the Local Government Act (Financial Management) Regulations 2011.

The Risk Manager reported that the Risk Management Policy has been approved by Council and online induction modules for employees, volunteers and contractors are now in place and proving successful.

Officers provided information about the actions undertaken following the fatal fire incident at the NCPA in December 2015.

**MOVED** Mr Heuzenroeder that the reports for information 6.1.1 to 6.1.6 be received.  
**Seconded** Ms Johnston **CARRIED**

**ACTIONS:**

- Risk Manager to provide a demonstration of the online induction module at the next Audit Committee meeting
- Nuriootpa Centennial Park Authority (NCPA) Workplan be presented to Council's Audit Committee (Chief Executive Officer)

## 6.2 CORRESPONDENCE

**MOVED** Cr Angas that correspondence 6.2.1 be received.  
**Seconded** Ms Johnston **CARRIED**

Council's response dated 8 February 2016 to correspondence 6.2.1 Dean Newbery and Partners – Balance Date Management Letter – Financial Year Ended 30 June 2015 was tabled at the meeting.

## 7.1 DEBATE AGENDA – REPORTS

### 7.1.1

#### DRAFT AUDIT COMMITTEE 2016 WORKPLAN

B343

#### **INTRODUCTION**

The draft Audit Committee Workplan for 2016 was presented to the Committee for approval.

**MOVED** Cr Angas that the Audit Committee approve the draft Audit Committee Workplan for 2016 and request Officers review and revise the workplan utilising the LGA template format and potentially incorporating the Audit Committee Action Plan document when appropriate.

**Seconded** Ms Johnston

**CARRIED**

Ms Johnston proposed that the Audit Committee's Workplan be reformatted utilising the latest Local Government Association template, "Model Work Program for a Council's Audit Committee" and tabled the template and an example of a workplan utilising the template at the meeting.

During a subsequent discussion it was also proposed that the Audit Committee Action Plan document could be incorporated into the overall Workplan.

**ACTIONS:**

- Council Officers to review and revise the Audit Committee's Workplan and Action Plan utilising the format of the LGA template "Model Work Program for a Council's Audit Committee".

#### **COMMENT**

The draft Workplan has been formulated based on a model workplan developed by the Local Government Association.

A well-functioning Audit Committee and an appropriate and robust internal audit program (as outlined in the draft Workplan), significantly reduces the likelihood of the need for Efficiency and Economy Audits as prescribed in Section 130A of the Local Government Act 1999.

The Workplan has been prepared to include all proposed reports, policy reviews, compliance reviews, etc. for 2016.

## LEGISLATION/POLICY/COUNCIL STRATEGIC PLAN

### Legislation

Local Government Act 1999 – Section 126

### Council Strategic Plan

4.1 – Responsibility

## FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

### Financial

Adoption and adherence to an annual Workplan is a risk management tool.

## COMMUNITY CONSULTATION

Not required under legislation or Council's Public Consultation Policy.

### 7.1.2 TREASURY MANAGEMENT REVIEW

**B1434**

## INTRODUCTION

Pursuant to Section 140 of the Local Government Act 1999, and in accordance with Council's Treasury Management Policy, Council must undertake an annual performance review of its Treasury Management activities.

**MOVED** Mr Heuzenroeder that the report on Council's 2015 Treasury Management activities be received and noted.

**Seconded** Cr Angas

**CARRIED**

## COMMENT

The key principles within Council's Treasury Management Policy are as follows:

Council will:

- Maintain target ranges for its Net Financial Liabilities ratio;
- Generally only borrow funds when it needs cash and not specifically for particular projects;
- Not retain and quarantine money for particular future purposes unless required by legislation or agreement with other parties;
- Apply any funds that are not immediately required to meet approved expenditure (including funds that are required to be expended for specific purposes but are not required to be kept in separate bank accounts) to reduce its level of borrowings or to defer and/or reduce the level of new borrowings that would otherwise be required.

Comments regarding the 2015 performance with regard to the above principles are outlined below:

**(a) Net Financial Liabilities Ratio**

Council's policy regarding its net financial liabilities is that they shall not exceed 100% of total operating revenue (adopted February 2010).

As at 30 June 2015, Council's net financial liabilities represented 39% of total operating revenue, and it is projected to increase to 47% as at 30 June 2016. Accordingly, Council is currently operating within its policy threshold.

**Loan Borrowings**

Council's policy relative to loan borrowings states that the use of internal reserves be considered prior to consideration of external loan borrowings. A cash advance debenture facility with variable interest rate was set up for Nuriootpa Centennial Park Authority to a maximum value of \$1,000,000. There were no new fixed borrowings in 2015.

The use of internal cash reserves has continued to be used in funding Council's capital works programs and has subsequently minimised the net interest cost to Council.

A summary of the fixed interest rate borrowings are shown below:

<b>Debenture Loan Summary</b>				
<b>No.</b>	<b>Loan Amount</b>	<b>Interest Rate</b>	<b>Final Payment Date</b>	<b>Principal Outstanding as at 31 December 2015</b>
94	1,500,000	6.75%	16/09/17	295,769
96	2,000,000	6.02%	15/05/18	467,777
97	700,000	5.65%	16/06/18	160,681
98	2,000,000	6.65%	15/01/19	654,683
100	1,954,200	6.45%	15/03/20	790,718
101	2,500,000	6.24%	15/03/21	1,190,607
102	5,000,000	6.62%	16/10/21	2,593,799
103	100,000	6.80%	15/11/21	52,191
104	2,900,000	6.90%	15/03/22	1,619,439
105	7,000,000	7.02%	16/11/24	5,793,195
106	2,000,000	6.85%	15/04/26	1,594,558
107	113,000	4.75%	16/07/22	84,475
108	515,000	6.20%	15/01/34	494,343
109	125,000	5.30%	15/09/29	119,367
				<b>15,911,603</b>

A summary of the variable interest rate borrowings are shown below:

<b>Cash Advance Loan Summary</b> (Nuriootpa Centennial Park Authority)				
<b>No.</b>	<b>Total Facility Loan Amount</b>	<b>Interest Rate</b>	<b>Facility End Date</b>	<b>Principal Outstanding as at 31 December 2015</b>
CA110	1,500,000	4.25%	15/06/20	553,635

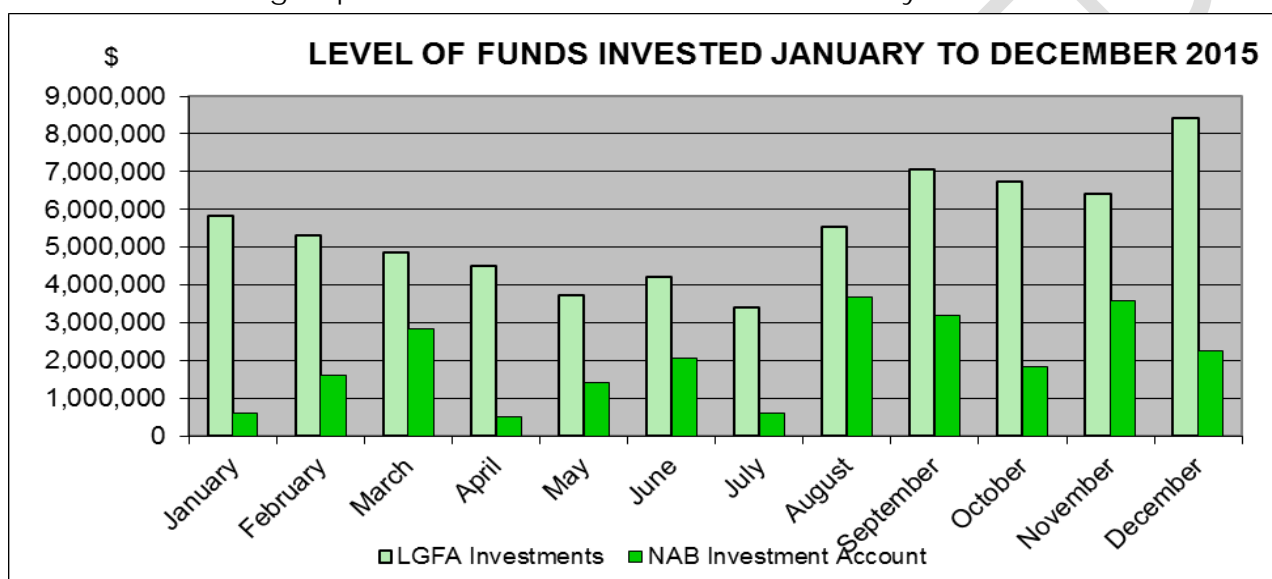
*Note: Clarification was sought at the meeting about the 1,500,000 figure detailed for the Total Facility Loan Amount for the Nuriootpa Centennial Park Authority. Council Officers confirmed that the correct amount is 1,000,000 not 1,500,000 as stated.*

## Investments

Council's total investments as at 31 December 2015 were:

	Variable Interest Rate \$'000	≤ 1 year Fixed \$'000	> 1 year ≤ 5 years \$'000	> 5 years \$'000	Interest Rate Range	TOTAL \$'000
LGFA	4,173	4,244	0	0	2.00 to 2.35%	8,417
NAB Investment A/c	2,269	0	0	0	2.50%	2,269
<b>TOTAL</b>	<b>6,442</b>	<b>4,244</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,686</b>

The level of funds invested during the year is presented in the graph below. The graph excludes Council's separate operating bank account which was maintained at minimum working capital levels in accordance with the Policy.



## **LEGISLATION/POLICY/COUNCIL STRATEGIC PLAN**

### Legislation

Local Government Act 1999 – Section 126(4) and Section 140

### Policy

Treasury Management Policy

### Council Strategic Plan

Strategy 4.1: Responsibility

## **FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS**

### Financial

The financial statements have been incorporated into Council's consolidated Financial Statements.

## **COMMUNITY CONSULTATION**

No separate consultation is required under Council's Public Consultation Policy. The Statements are public documents, accessible to the community via Council's website.

### 7.1.3

## 2016-17 AUDIT COMMITTEE BUDGET

B343

### INTRODUCTION

To consider a draft 2016-17 budget for the Committee's operations.

#### **MOVED** Cr Angas

That:

- (1) the draft 2016-17 Audit Committee draft budget be endorsed for consideration by Council during the budget deliberations;
- (2) the 2016-17 sitting fee of \$550 (excl GST) per meeting for the Independent Chairman of the Audit Committee be endorsed for consideration by Council;
- (3) the 2016-17 sitting fee of \$350 (excl GST) per meeting for the Independent Members of the Audit Committee be endorsed for consideration by Council; and
- (4) the 2016-17 Consultant budget of \$0 and Training budget of \$1000 be endorsed for consideration by Council.

**Seconded** Mr Heuzenroeder

**CARRIED**

### COMMENT

The budget for 2016-17 is being prepared by completing the base budget for activities that are externally and internally required by the Audit Committee.

In the Audit Committee budget, two items that require review are Consultant and Training/Seminar expenditure.

In the past, consultants have been used to undertake reviews and compliance checks for taxation and accounting, along with purchase and implementation of the internal control tracking tool. The training budget has previously been used by new independent members to attend LGA programs.

A proposed 2016-17 budget to support the operations of the Audit Committee is outlined in the following table:

Audit Committee Financial Statement as at 14 January 2016

	January YTD Actuals	Original Budget 2015-16 + Q1 Adj	January YTD Budget % YTD	Draft 2015/16 Budget
<b>496 - Audit Committee</b>				
Salaries (preparation of reports/agendas, attendance at meetings – CEO, Director C&CS, Manager Financial Services, Minute Secretary)	7,524	13,856	46%	13,990 *
Consultants (provision for sundry project work undertaken as part of Committee work plan or specifically requested by Council)	0	2,850	0%	2,880 ~
Training / Seminar expenses	0	1,000	0%	1,000 ~
Sitting Fees (Independent Members)	1,800	5,550	32%	5,550 #
Advertising	0	470	-0%	470 ~
Insurance & Other	147	147	100%	150
<b>Total 496 - Audit Committee</b>	<b>9,471</b>	<b>23,873</b>	<b>40%</b>	<b>24,040</b>

\* Provides for 1% increase for the Salary cost at existing allocations (new EB to be implemented). Depending on cost centre allocations, this amount may change when the budget is finalised.

~ Consultants, training and advertising expenses are set at the same amounts as the previous budget and may change after review by Council.

# Provides for Sitting Fees as follows: Chairperson \$550, Independent Members x 2 - \$350 to attend 4 meetings each and the annual report attendance at Council meeting for the Chairperson; for Audit Committee consideration.

## LEGISLATION/POLICY/COUNCIL STRATEGIC PLAN

### Legislation

Local Government Act 1999 Section 123

Local Government (Financial Management) Regulations 2011

### Policy

Budget & Business Plan and Review Policy

### Council Strategic Plan

4.1 – Responsibility

4.3 - Systems

## FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

### Financial

The Budget Timetable is an integral part of financial planning to ensure an organised and thorough process is undertaken.

## COMMUNITY CONSULTATION

Included as part of the draft 2016-17 Budget/Business Plan consultation and adoption process.

### 7.1.4

### INTERNAL FINANCIAL CONTROL

B1321

## INTRODUCTION

Update on internal control work performed since the last Audit Committee meeting.

**MOVED** Mr Heuzenroeder that the report on Internal Financial Controls be received and noted.

**Seconded** Ms Johnston

**CARRIED**

Council's Internal Controls Compliance Officer reported that the next cycle of Control Track has commenced with the focus on high level risks and assessments that were not undertaken in the previous cycle.

## COMMENT

The Internal Financial Control Report for October to December 2015 was presented to the Committee.

Council Officers advised that the Auditors attended Council in January 2016 and undertook an audit of Council's internal controls. Council is awaiting the interim management correspondence following the visit.

**ACTIONS:**

- The Auditor's response to the audit visit to assess Council's internal controls in January 2016 to be distributed to the Audit Committee when received (Manager Financial Services).

**LEGISLATIVE / POLICY / COUNCIL STRATEGIC PLAN****Legislation**

Local Government Act 1999 – Section 125, 126, 129 (1) (b)

Local Government (Financial Management) Regulations 2011, 14(e)

**Council Policy**

Various

**Council Strategic Plan**

4.1 Responsibility

4.3 Systems

**FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS**

The regular monitoring and review of Council's financial internal controls and risk assessments will significantly facilitate the on-going safeguarding of Council assets.

The control and review of risks is a core officer function and responsibility. The introduction of the new system supports officers by providing a consistent framework and process.

**COMMUNITY CONSULTATION**

Not required under legislation or Council's Public Consultation Policy.

7.1.5

**BUDGET UPDATE 2015-16 (AS AT 30 SEPTEMBER 2015)**

**B2734**

**INTRODUCTION**

The Budget Update for 2015-16 (as at 30 September 2015) was presented to Council at its 17 November 2015 Council Meeting, and the budget variations contained therein were adopted.

**MOVED** Cr Angas that the Budget Update for 2015-16 (as at 30 September 2015) be received.

**Seconded** Mr Heuzenroeder

**CARRIED**

**COMMENT**

The report provides information as to the financial position of Council, containing budget update reports which include Executive Summary, Uniform Presentation of Finances, Key Performance Indicators, Summary of Operating Budget Variance Adjustments and Summary of Capital Budget Variance Adjustments.

The proposed variances between the original budget and this budget update are listed on the operating and capital budget adjustment pages. Please note for reconciliation purposes, from the Original Budget to the first Budget Update, the variances also include a summary of the carried forwards as approved by Council (refer Agenda Item 7.3.1.2). The report also includes details of new initiatives and capital expenditure adjustments.



## LEGISLATION/POLICY/COUNCIL STRATEGIC PLAN

### Legislation

Local Government Act 1999 Sect 123 (13)

Local Government (Financial Management) Regulations 2011 Regulation 9 (1)(a)

### Policy

Budget & Business Plan and Review Policy

### Council Strategic Plan

4.1 – Responsibility

4.3 - Systems

## FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

### Financial

To enable Council to make effective and strategic financial decisions, a quarterly budget review report is provided. This report contains budget adjustments for decisions Council has made since the last review and other adjustments to meet financial changes in capital and/or operational areas. The document contains comments and implications for the Long Term Financial Plan as a result of this review.

## COMMUNITY CONSULTATION

Community Consultation was part of the original budget adoption process in June 2015, as per legislation.

### 7.1.6

### REVIEW DRAFT BUDGET 2016-17 AND ANNUAL REVIEW LONG TERM FINANCIAL PLAN INDEXATION AND ASSUMPTIONS

## INTRODUCTION

As per the 2016-17 Annual Budget/Business Plan timetable endorsed by Council in January 2016, the Audit Committee needs to consider and provide comment on the indexation and assumptions for the Annual Budget & Business Plan (AB&BP) 2016-17 and Long Term Financial Plan (LTFP) 2016-17 to 2025-26.

**MOVED** Mr Heuzenroeder that the Audit Committee notes the indexation and assumptions for the Annual Budget & Business Plan 2016-17 and Long Term Financial Plan (LTFP) 2016-17 to 2025-26.

**Seconded** Ms Johnston

**CARRIED**

## COMMENT

### *Overview*

The review of indexing and assumptions for the Annual Budget & Business Plan 2016-17 and Long Term Financial Plan (LTFP) 2016-17 to 2025-26 has been considered by Council at the information briefing Workshop on 3 February 2016. This process enables Council to take a long term view and 'set the big picture' before starting the annual budget process. A copy of the Council Workshop presentation is attached.

### Key Assumptions & Enhancements

Each annual review process provides an opportunity to introduce new assumptions or enhance the information base as required, using the existing indexation and assumptions.

The main assumptions and indexation being considered during this early stage of budget preparation is the income and expenditure indexation. As included in the presentation paper, Council reviews the proposed rate increase and the indexation application to operational expenditure.

The LGPI (Local Government Price Index) is used as a base for the plan(s) and considering local needs and requirements to meet service levels, including external influences such as service contracts where fuel prices and employment costs may vary the service cost. The Local Government Price Index (LGPI) increase for 12 months to 30 June 2015 was 1.3% 30 September 2015 was 1.0%; (noting the Adelaide CPI for the 30 December period was 1%).

As the cost indexation has been reducing from previous adopted long term financial plans Council will reconsider the cost of delivering services and any changes to the level of service to ensure income or charges for the services are appropriate. The following indexation is sourced from the adopted LTFP.

#### *Income*

Rate increases to fund and ensure service level provision is maintained in line with revised sustainability requirements.

Both the Residential and Non-residential rate revenue were budgeted to increase at 4.50% in 2016-17, 5% in 2016-17, and the years following 4%, 3.5%, 3.0%, then 2.5% per annum thereafter.

The adopted Waste Service Rate Revenue indexation rates in the LTFP from last year was budgeted to increase at 6.5% in 2016-17 and 2017-18, 5.50% in 2018-19 then 3.5% in 2019-20, 3.0% in 2020-21 and then for the next 3 years at 2.5% and the last year at 3.0%.

The adopted Community Wastewater Management Systems Service Rate Revenue indexation rates in the LTFP from last year was budgeted to increase at 2.5% in 2016-17, 3.5% for the next six years and then 3.0% per annum thereafter. An ongoing review of the service charge for requirements from ESCOSA to include cost of Capital into the annual operating cost.

Other income indexation has a base increase of 2.0%.

#### *Expenditure*

Operating expenditure indexation will be assessed individually for internal and external factors as follows:

- employee costs at the enterprise bargaining agreements scheduled to be reviewed in 2016 (the current adopted plan is at 2.5%), reconsider in line with the current LGPI at 1.0%;
- Contractors and materials have a base increase of 1.0%, the default indexation for expenditure (the current adopted plan is at 2.5%);
- selected operating costs have been isolated as increases to these are unique eg. power 2.5%, water 2.5%, insurance 4.0%, waste collection TBA% all plus changes to service provision, ie. increased number of services provided or usage – all indexation quoted is from the adopted LTFP.

Increases to power costs are subject to a LGA tender for Councils in SA, the current 12 month contract indexation is to be advised. Power costs make up about 3.6% of the total operating budget

Long term plans for Capital expenditure will be reassessed; ensuring funding is allocated for renewal and replacement assets along with an allowance for new discretionary projects.

## LEGISLATION/POLICY/COUNCIL STRATEGIC PLAN

### Legislation

Local Government Act 1999 Section 122

### Policy

Budget & Business Plan and Review Policy

### Council Strategic Plan

4.1 – Responsibility

## FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

### Financial

Long-term financial planning is an iterative process - it occurs on a regular basis and experience suggests that it will take many attempts to 'get it right'. As new information is included in the planning process - from the latest advice on interest rates to information from the community on expected service standards - the plans are discussed, reviewed and fine-tuned.

Each annual review process provides an opportunity to introduce new assumptions or enhance the information base as required.

## COMMUNITY CONSULTATION

A public consultation process of the Annual Budget and Business Plan will be undertaken in May/June 2015.

### 7.1.7

### MID-YEAR BUDGET REVIEW 2015-16 (AS AT 31 DECEMBER 2015)

**B2734**

## INTRODUCTION

The Mid-year Budget Review for 2015-16 (as at 31 December 2015) will be presented to Council at its 16 February 2016 Council Meeting, and the budget variations contained therein will be considered for adoption.

**MOVED** Ms Johnston That the Mid-year Budget Review for 2015-16 (as at 31 December 2015) be endorsed for Council consideration.

**Seconded** Mr Heuzenroeder

**CARRIED**

## COMMENT

The report provides information as to the financial position of Council, containing budget update reports which include Executive Summary, Uniform Presentation of Finances, Key Performance Indicators, Summary of Operating Budget Variance Adjustments and Summary of Capital Budget Variance Adjustments.

The proposed variances between the original budget and this budget update are listed on the operating and capital budget adjustment pages. The report also includes details of new initiatives and capital expenditure adjustments.

## LEGISLATION/POLICY/COUNCIL STRATEGIC PLAN

### Legislation

Local Government Act 1999 Sect 123 (13)

Local Government (Financial Management) Regulations 2011 Regulation 9 (1)(a)

### Policy

Budget & Business Plan and Review Policy

### Council Strategic Plan

4.1 – Responsibility

4.3 - Systems

## FINANCIAL, RESOURCE AND RISK MANAGEMENT CONSIDERATIONS

### Financial

To enable Council to make effective and strategic financial decisions, a quarterly budget review report is provided. This report contains budget adjustments for decisions Council has made since the last review and other adjustments to meet financial changes in capital and/or operational areas. The document contains comments and implications for the Long Term Financial Plan as a result of this review.

## COMMUNITY CONSULTATION

Community Consultation was part of the original budget adoption process in June 2015, as per legislation.

### 8. OTHER

#### 8.1 AUDIT COMMITTEE ACTION TRACKING

**MOVED** Mr Heuzenroeder that the progress of the Audit Committee Tracking report received.

**Seconded** Cr Angas

**CARRIED**

Ms Johnston suggested the workplan and tracking report could be combined into one document.

### 9. ANY OTHER BUSINESS

The CEO reported that The Barossa Council has been selected by the Auditor-General for an audit of Council's governance compliance and will visit Council in May as a part of the Audit.

#### 9.1 AGENDA FORMAT

The CEO explained that Council revised the format of agendas in 2015 in relation to how consensus agenda items are dealt with and future meetings of Council's Audit Committees will adopt the same process. Consensus items will be moved en bloc without debate or discussion; so any consensus items that members wish to be debate must be moved from the Consensus part of agenda to the debate section prior to the en bloc motion being carried.

### 10. NEXT MEETING

To be advised in May or June 2016

11. CLOSURE

There being no further business, Mr Brass closed the meeting at 5:06 pm.

Confirmed:

Chairman: .....

Date: .....

UNCONFIRMED