



**Adelaide Hills**  
COUNCIL

**AUDIT COMMITTEE**

**NOTICE OF MEETING**

To: **Presiding Member** Paula Davies

**Members**

Geoff Purdie  
Peter Brass  
Cr Malcolm Herrmann  
Cr John Kemp

Notice is hereby given pursuant to the provisions under Section 87 of the *Local Government Act 1999* that the next meeting of the Audit Committee will be held on:

**Monday 13 August 2018**  
**6.00pm**  
**63 Mt Barker Road, Stirling**

A copy of the Agenda for this meeting is supplied under Section 87 of the Act.

Committee meetings are open to the public and members of the community are welcome to attend. Public notice of the Agenda for this meeting is supplied under Section 88 of the Act.

**Andrew Aitken**  
**Chief Executive Officer**



**Adelaide Hills**  
COUNCIL

**AUDIT COMMITTEE**

**AGENDA FOR MEETING**

**Monday 13 August 2018**  
**6.00pm**  
**63 Mt Barker Road, Stirling**

**ORDER OF BUSINESS**

*Council Vision*

*Nurturing our unique place and people*

*Council Mission*

*Delivering activities and services which build a resilient community, sustain our built and natural environment and promote a vibrant economy*

**1. COMMENCEMENT**

**2. APOLOGIES/LEAVE OF ABSENCE**

- 2.1. Apology
- 2.2. Leave of Absence
- 2.3. Absent

**3. MINUTES OF PREVIOUS MEETINGS**

- 3.1. Audit Committee Minutes – 30 April 2018

***Recommendation***

*That the minutes of the Audit Committee meeting held on 30 April 2018 as supplied, be confirmed as an accurate record of the proceedings of that meeting.*

**4. DELEGATION OF AUTHORITY**

The Audit Committee operates in accordance with the relevant sections of the Local Government Act 1999, and its Terms of Reference.

**5. DECLARATION OF INTEREST BY MEMBERS OF THE COMMITTEE**

**6. OFFICER REPORTS**

- 6.1. Action Report and 2018 Work Plan Update
  1. *Report be received and noted*
  2. *Status of the Action Report and Work Plan be noted*
  
- 6.2. Prudential Report for Potential Divestment of CWMS  
*That the Prudential Review Report and the Probity Report be received and noted.*
  
- 6.3. External Audit Interim Letter
  1. *Receives and notes the report.*
  2. *Notes the communication received from Galpins from their Interim visit relating to the 2017/18 External Audit and the Management Response to their findings from the Interim Audit.*
  
- 6.4. End of Financial Year Update  
*The Audit Committee resolves that the report be received and noted.*
  
- 6.5. Internal Audit Quarterly Update
  1. *Receive and note the report.*
  2. *Note the content of the Internal Audit of Planning Assessment Process Report and the Internal Audit of Customer Service Standard Reporting Report.*
  
- 6.6. Audit Actions Implementation Report
  1. *To receive and note the report.*
  2. *To note the implementation status of Internal and External Audit actions.*
  
- 6.7. Budget Review 3
  1. *Receive and note the report.*
  2. *Notes that the Operating Budget variations presented in Budget Review 3 for the period ending 31 March 2018 had no impact on the budget and continued to provide for an adjusted Operating Surplus for the 2017/18 year of \$1.986m.*
  3. *Notes the proposed Capital Program amendments include \$170k of increased expenditure that is offset by additional capital grant funding of \$170k.*

- 6.8. Risk Management Plan Update  
*The Audit Committee resolves that the report be received and noted.*
  
- 6.9. Placement of Council's Insurance Portfolio  
*The Audit Committee resolves that the report be received and noted.*
  
- 6.10. Quarterly Debtors Report  
*The Audit Committee resolves that the report be received and noted.*

**7. NEXT MEETING**

The next Audit Committee meeting will be held on a date to be determined at 63 Mount Barker Road, Stirling.

**8. CLOSE MEETING**



**ADELAIDE HILLS COUNCIL AUDIT COMMITTEE  
MINUTES OF MEETING 30 APRIL 2018  
36 NAIRNE ROAD, WOODSIDE**

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**Presiding Member:** Paula Davies

**Members:**

Geoff Purdie  
Peter Brass  
Cr Malcolm Herrmann

**In attendance:**

David Waters	Acting Chief Executive Officer
Terry Crackett	Director Corporate Services
Lachlan Miller	Executive Manager Governance & Performance
Mike Carey	Manager Financial Services
Tim Muhlhausler	Galpins Accountants, Auditors and Business Consultants
Juliano Freitas	Galpins Accountants, Auditors and Business Consultants

**1. Commencement**

The meeting commenced at 6.03pm

**2. Apologies/Leave of Absence**

**2.1. Apology**

An apology was received from John Kemp and is accepted.

**2.2. Leave of Absence**

Nil

**2.3. Absent**

Nil

**ADELAIDE HILLS COUNCIL AUDIT COMMITTEE  
MINUTES OF MEETING 30 APRIL 2018  
36 NAIRNE ROAD, WOODSIDE**

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**3. Previous Minutes**

**3.1. Audit Committee Meeting– 20 February 2018**

Moved Cr Malcolm Herrmann  
S/- Peter Brass

**AC18/19**

**That the minutes of the Audit Committee meeting held on 20 February 2018, as distributed, be confirmed as an accurate record of the proceedings of that meeting.**

**Carried**

**4. Delegation of Authority**

In accordance with the Audit Committee Terms of Reference, the Committee has no delegated decision-making powers. The Recommendations in Items 6.4 and 6.9 are to be submitted to Council for adoption.

**5. Declaration of Interest by Members of the Committee**

**6. Officer Reports**

**6.1. Action Report & Work Plan Update**

Moved Peter Brass  
S/- Cr Malcolm Herrmann

**AC18/20**

**The Audit Committee resolves that the:**

- 1. Report be received and noted**
- 2. Status of the Action Report and Work Plan be noted**

**Carried**

**6.2. Internal Financial Controls update**

Moved Geoff Purdie  
S/- Cr Malcolm Herrmann

**AC18/21**

**That Audit Committee receives and notes the report.**

**Carried**

**ADELAIDE HILLS COUNCIL AUDIT COMMITTEE  
MINUTES OF MEETING 30 APRIL 2018  
36 NAIRNE ROAD, WOODSIDE**

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**6.3. End of Year Financial Reporting Timetable**

Moved Peter Brass **AC18/22**  
S/- Cr Malcolm Herrmann

**That the Audit Committee:**

- 1. Receives and notes the report.**
- 2. Endorses the proposed end of year reporting timetable for 2017/18.**

**Carried**

**6.4. External Audit Plan**

Tim Muhlhausler and Juliano Freitas of Galpins Accountants, Auditors and Business Consultants presented the External Audit Plan.

Moved Peter Brass **AC18/23**  
S/- Geoff Purdie

**The Audit Committee resolves:**

- 1. That the report be received and noted**
- 2. To recommend to Council the scope of work and timing of the 2017/18 External Audit by Galpins Accountants, Auditors and Business Consultants as contained in Appendix 1.**

**Carried**

**6.5. Quarterly Debtors Report**

Moved Peter Brass **AC18/24**  
S/- Geoff Purdie

**The Audit Committee resolves that the report be received and noted.**

**Carried**

**6.6. 2018-19 Draft Annual Business Plan and Budget**

Moved Peter Brass **AC18/25**  
S/- Geoff Purdie

**The Audit Committee resolves that the report be received and noted.**

**Carried**

**ADELAIDE HILLS COUNCIL AUDIT COMMITTEE  
MINUTES OF MEETING 30 APRIL 2018  
36 NAIRNE ROAD, WOODSIDE**

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**6.7. Risk Management Plan update**

Moved Cr Malcolm Herrmann  
S/- Peter Brass

**AC18/26**

The Audit Committee resolves that the report be received and noted.

**Carried**

**6.8. Internal Audit quarterly update**

Moved Geoff Purdie  
S/- Peter Brass

**AC18/27**

The Audit Committee resolves to receive and note the report.

**Carried**

**6.9. Strategic Internal Audit Plan**

Moved Peter Brass  
S/- Geoff Purdie

**AC18/28**

The Audit Committee resolves:

1. That the report be received and noted
2. To recommend to Council the adoption of the draft Strategic Internal Audit Plan 2018/19 – 2021/22 as contained in Appendix 1.
3. To acknowledge that any revisions/changes arising from the Committee's consideration of the draft Plan will be incorporated into the subsequent report to Council.

**Carried**

**7. Next Meeting**

The next ordinary meeting of the Audit Committee will be held at 6.00pm on Monday, 13 August 2018, at 63 Mount Barker Road, Stirling.

**8. Close Meeting**

The meeting closed at 7.48pm

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.1

**Originating Officer:** Lachlan Miller, Executive Manager Governance & Performance

**Responsible Director:** Andrew Aitken, Chief Executive Officer

**Subject:** Action Report and 2018 Work Plan Update

**For:** Decision

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**SUMMARY**

A formal Audit Committee Action Report is maintained to record the items requiring 'actioning' that result from each of the Audit Committee meetings.

The Audit Committee Work Plan assists the Committee members and staff in scheduling both discussion and reports to ensure appropriate coverage of the Committee functions over the 12 month period.

At its meeting on 6 November 2017, the Committee considered and adopted a Work Plan for 2018.

**RECOMMENDATION**

**The Audit Committee resolves that the:**

- 1. Report be received and noted**
  - 2. Status of the Action Report and Work Plan be noted**
- 

**1. GOVERNANCE**

➤ **Strategic Management Plan/Council Policy**

Goal	Organisational Sustainability
Strategy	Governance

Monitoring Audit Committee decisions and actions and the Committee's Work Plan assist in meeting legislative and good governance responsibilities and obligations

➤ **Legal Implications**

Section 126 of the *Local Government Act 1999* sets out the functions of an audit committee. Management of Committee’s action items and work plan facilitates the achievement of these functions.

➤ **Risk Management Implications**

The management of action items and the work plan will assist in mitigating the risk of:

*Poor governance practices occur which lead to a loss of stakeholder (i.e. customer and regulator) confidence and/or legislative breaches.*

Inherent Risk	Residual Risk	Target Risk
Extreme (5C)	Medium (3D)	Medium (3D)

Note that there are many other controls that assist in mitigating this risk.

➤ **Financial and Resource Implications**

There are no direct financial or resource implications from this item.

➤ **Customer Service and Community/Cultural Implications**

Not applicable.

➤ **Environmental Implications**

Not applicable.

➤ **Engagement/Consultation conducted with Council Committee, Regional Subsidiary, Advisory Group, the Administration and Community**

Consultation has occurred internally with Action and Work Plan responsible officers.

*Council Committees:* Not Applicable

*Advisory Groups:* Not Applicable

*Administration:* Terry Crackett, Director Corporate Services

*Community:* Not Applicable

## 2. **BACKGROUND**

### Action Report

The Action List tracks the implementation of resolutions of the Audit Committee.

### Work Plan

The functions of the Audit Committee are set out in part 7 (Role) of the Committee Terms of Reference.

A Work Plan has been developed to assist the Committee members and staff in scheduling discussion and reports to ensure appropriate coverage of the functions over the 12 month period.

The Audit Committee adopted a Work Plan for 2018 at its 6 November 2017 meeting.

**6.1. → Action Report, 2017 Work Plan Update and Adoption of 2018 Work Plan**

Moved Peter Brass	AC45/17
S/- Cr John Kemp	
The Audit Committee resolves that the:	
1. → Report be received and noted	
2. → Status of the Action Report and Work Plan be noted	
3. → 2018 Work Plan be adopted	
	Carried

**3. ANALYSIS**

Action Report

There are three outstanding items on the Audit Committee Action Report (**Appendix 1**), two have now been completed and the third, which relates to the confidentially order applied to a confidential report, will remain open for a prolonged period.

Work Plan

As per the 2018 Audit Committee Work Plan (**Appendix 2**), the following items are scheduled for the August 2018 (this) meeting:

Item	Commentary
End of Financial Year Update	Refer item 6.4
Placement of Council’s insurance portfolio (for noting)	Refer item 6.9
Risk Management Plan update	Refer item 6.8
Implementation of LGA Risk Management Review Action Plan	To be deferred to next meeting
Internal Audit quarterly update	Refer item 6.5
Implementation of internal audit actions progress report	Refer item 6.6
External audit interim letter	Refer item 6.3
Implementation of external audit actions progress report	Refer item 6.6
Debtors Report	Refer item 6.10

A number of additional reports are provided in this agenda for the Audit Committee’s consideration as follows:

- Budget Review 3 – Item 6.7
- Prudential Report for Potential Divestment of CWMS – Item 6.2

**4. OPTIONS**

The Committee has the following options:

- I. To note the status of the Action Report and Work Plan as presented.
- II. To alter or substitute elements of the Action Report and/or Work Plan/s.

**5. APPENDICES**

- (1) Audit Committee Action Report
- (2) 2018 Audit Committee Work Plan



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**Appendix 1**  
*Audit Committee Action Report*

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Meeting Date	Res No.	Item Name	Action Required (Council Resolution)	Responsible Director	Responsible Officer	Status	Date of Update	Est. Completion	Comments
20/02/2018	AC18/4(4)	Appointment of External Auditor - Release of Confidentiality Order	That the report and related attachments of the Committee and the discussion and considerations of the subject matter be retained in confidence until the completion of the contract	Terry Crackett	Lachlan Miller	In Progress	9/07/2018	30/03/2021	Given the commercial in confidence information, the release of the confidentiality order is unlikely to occur for 3-5 years depending on whether the option under the contract is exercised. Nevertheless the cost of Statutory Audit services is reported in the Annual Report.
30/04/2018	AC18/23	External Audit Plan	Recommend to Council the scope of work and timing of the 2017/18 External Audit by Galpins Accountants, Auditors and Business Consultants as contained in Appendix 1	Terry Crackett	Lachlan Miller	Completed	2/05/2018	24/04/2018	Council considered the matter at its 24 April 2018 meeting.
30/04/2018	AC18/	Strategic Internal Audit Plan	Recommend to Council the adoption of the draft Strategic Internal Audit Plan 2018/19 – 2021/22 as contained in Appendix 1. Acknowledge that any revisions/changes arising from the Committee's consideration of the draft Plan will be incorporated into the subsequent report to Council	Terry Crackett	Lachlan Miller	Completed	11/06/2018	22/05/2018	Council adopted the Strategic Internal Audit Plan at its 22 May 2018 meeting.

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## **Appendix 2**

### *2018 Audit Committee Work Plan*

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**ADELAIDE HILLS COUNCIL AUDIT COMMITTEE  
2018 Work Plan and Reporting Schedule**

Terms of Reference		
Financial Reporting	Long term financial plan forecast economic indicators	Annual
	Draft Annual Business Plan	Annual
	Budget Review 1	Annual
	Budget Review 2	Annual
	Budget Review 3	Annual
	Budget Review 4 (s10)	Annual
	End of financial year reporting timetable	Annual
	End of financial year update	Annual
	Final Annual Financial Statements (incl management representation letter)	Annual
	Draft Annual Report	Annual
Internal Control and Risk Management	Placement of Council's insurance portfolio (for noting)	Annual
	Internal Financial Controls update	Bi-annual
	Risk Management Plan update	Quarterly
	Results of LGA Risk Management Review	Annual
	Implementation of LGA Risk Management Review Action Plan	Bi-annual
Internal Audit	Internal Audit quarterly update	Quarterly
	Internal audit reports	As required
	Implementation of internal audit actions progress report	Bi-annual
	Internal Audit Plan review	Annual
External Audit	External audit interim letter	Biannual
	Implementation of external audit actions progress report	Bi-annual
	External Audit Plan review	Annual
	Meeting attendance by external auditors	Annual
	Review of auditor independence and legislative compliance	Annual
	Balance date audit management letter (Completion Report)	Annual
Whistleblowing	Whistleblowers Policy review	Triennial
Other Business	Audit Committee self assessment review	Annual
	Whistleblowers protection procedure review	Biennial
	Chairperson's report	Annual
	Work Plan and Reporting Schedule	Annual
	Audit Committee Meeting Dates	Annual
	Service Improvement Benefits Realisation Report	Bi-annual
	Debtors Report	Quarterly
	Terms of Reference	Annual

2018				
Feb	May	Aug	Oct	Nov
2017				


	verbal	letter		
			in camera	
			draft	final

next review 2019				
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	N/A			

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.2

**Originating Officer:** Karen Bennink, Community Wastewater Management System  
Technical Officer

**Responsible Director:** Peter Bice, Director Infrastructure and Operations

**Subject:** Prudential Report for Potential Divestment of CWMS

**For:** Decision

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**SUMMARY**

At its meeting held on 26 September 2017, Council resolved that the CEO identify and seek the interest of other councils in undertaking an open market joint expression of interest (EOI) process for the possible divestment of Council's CWMS assets. It also resolved that probity advice services be maintained throughout the CWMS Review and EOI process.

The CEO wrote to a number of Councils late 2017, seeking their interest in collaborating with Adelaide Hills Council for a collective approach to market. Two of these Councils responded with interest and subsequently a Joint Working Group (JWG) was formed with the City of Onkaparinga (CoO) and the Rural City of Murray Bridge (RCMB) to manage the joint approach.

A joint open market EOI process was undertaken through April – June 2018 by AHC, CoO and RCMB.

At a Special Council meeting held on 19 June 2018 Council were presented with an overview of the outcomes of the EOI and evaluation process. To inform future decision making in relation to the potential divestment of Council's CWMS, it was recommended that community consultation and an independent Prudential Review be undertaken consistent with Section 48 of the *Local Government Act 1999*. Council resolved to undertake both.

This report provides the Audit Committee with the outcomes of the Prudential Review as well as a Probity Report associated with the CWMS EOI process to date.

**RECOMMENDATION**

**The Audit Committee resolve that the Prudential Review Report and the Probity Report be received and noted.**

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## 1. GOVERNANCE

### ➤ Strategic Management Plan/Council Policy

Goal 3 Places for people and nature  
 Strategy 3.5 We will take a proactive approach, and long term view, to infrastructure maintenance and renewal

Undertaking the independent Prudential Review ensures compliance with Council’s Prudential Policy and provides assurance that the potential divestment of Council’s CWMS is consistent with Council’s current Strategic Management Plan and the objectives of Council’s Development Plan.

### ➤ Legal Implications

Section 48 of the *Local Government Act 1999* refers to prudential requirements for certain projects of significance.

Section 48 of the *Local Government Act 1999* requires council’s to undertake a Prudential Review before a Council engages in a project that exceeds financial parameters set by the Act.

Furthermore, the Act also stipulates where a council considers that it is necessary or appropriate, a report that addresses the prudential issues set out in Section 48(2) can be obtained before the council engages in that project. The exploration of divestment of Council’s CWMS assets is considered to be a project of significant community importance and therefore a prudential review and subsequent report has been prepared (*see Appendix 1*).

### ➤ Risk Management Implications

Undertaking a prudential review and maintaining probity advice services will assist in mitigating the risk of:

*Failure to undertake a prudential review during the divestment process leading to decision making that is not fully informed and considered*

Inherent Risk	Residual Risk	Target Risk
High (3B)	Low (3E)	Low (3E)

*Failure to maintain probity services throughout the CWMS Review and EOI leading to a process that is not transparent, fair, and equitable.*

Inherent Risk	Residual Risk	Target Risk
High (3B)	Low (3E)	Low (3E)

By undertaking the independent Prudential Review and maintaining probity advice services the risks identified above have been provided with mitigation controls to achieve the target low residual risk rating.

➤ **Financial and Resource Implications**

A review of the financial risks associated with the possible CWMS divestment show that there is uncertainty in relation to the potential sale price of the CWMS assets. The CWMS assets include all Council owned infrastructure and parcels of land, associated with the CWMS network. However some land associated with the CWMS assets is currently defined as community land which must go through a revocation process, including approval by the Minister for Planning, prior to any potential sale.

Should the CWMS assets be divested, this will result in a reduction of net income to Council. In the longer term a low sale price is likely to have an adverse impact on Council's financial position, whilst a high sale price could improve Council's financial capacity. Income received from any divestment will increase investment income or reduce Council's finance costs but the value of this will be dependent on the sale price.

The potential sale price and impact to Council's Long Term Financial Plan will remain unknown until a second stage request for tender, if resolved to do so.

➤ **Customer Service and Community/Cultural Implications**

The community has been provided with the opportunity to provide their feedback in relation to the possible divestment of Councils CWMS assets. Community consultation occurred from 9 July – 2 August 2018. Letters were sent to all property owners with a CWMS connection as well as customers of recycled water supply from the Birdwood and Kersbrook wastewater treatment facilities. Homeowners in the un-sewered townships of Mylor, Summertown/Uraidla, Inglewood and Houghton were also notified via mail. A Notice was placed in two local newspapers advising the community of the consultation process and directing people to the online survey and information on Councils Engagement HQ website.

The consultation process is outlined in the Prudential Review and was considered to be a reasonable level of communication with this project.

High level risks identified in the Prudential Review included the possible impact a divestment may have on prices for existing CWMS customers and the potential impact on future network expansion into currently un-sewered townships. These risks are major considerations if progressing to a second stage request for tender.

➤ **Environmental Implications**

The Prudential Review has not identified any environmental implications relating to the potential divestment of Council's CWMS assets. Regardless of ownership, all licensed wastewater entities must meet stringent environmental controls relating to their operations and services.

➤ **Engagement/Consultation conducted with Council Committee, Regional Subsidiary, Advisory Group, the Administration and Community**

*Council Committees:* Not applicable

*Advisory Groups:* Not Applicable

*Administration:* Chief Executive Officer  
Director Infrastructure and Operations  
Director Corporate Services  
Executive Manager Governance and Performance  
Manager Waste and Emergency Management  
Manager Financial Services  
Governance and Risk Coordinator

*Community:* Community consultation was conducted through 9 July 2018 – 2 August 2018, involving a mail out to CWMS customers, future potential customers in specified un-sewered townships and other relevant stakeholders, as well as a Notice placed in local newspapers and through online information and survey.

## 2. BACKGROUND

At a Special Council meeting held on 19 June 2018 Council were presented with a high level overview of the outcomes of the joint CWMS divestment EOI and evaluation process undertaken through April – June 2018 in collaboration with the CoO and RCMB. In consideration of this confidential report, Council members resolved the following:

**6.1.1 Community Wastewater Management System Expression of Interest Outcomes – Confidential Item**

Moved Cr Linda Green  
S/- Cr Nathan Daniell

131/18

Council resolves: **Item 4 RELEASED 05 JULY 2018**

1. That the report be received and noted.
2. The Administration is to continue to work collaboratively with the City of Onkaparinga and Rural City of Murray Bridge for the potential divestment of Council's CWMS.
3. To inform future decision making in relation to divestment of Council's CWMS or otherwise an independent Prudential Review is to be conducted in accordance with Section 48 of the Local Government Act 1999.
4. Community consultation is to be undertaken as outlined in this report, including a drop in session in Gumeracha, to inform future decision making in relation to divestment of Council's CWMS or otherwise.
5. That probity advice services are maintained throughout the CWMS review process.
6. A further report be provided to Council outlining the outcome of community consultation and prudential review to inform its consideration of progressing to a second stage request for tender for the divestment of Council's CMWS.

	Carried Unanimously
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Community consultation and a Prudential Review have been undertaken in accordance with resolution 3 and 4 above. Probity advice services were also maintained throughout the EOI and evaluation process to date.



### 3. ANALYSIS

#### Prudential Review

In accord with Council resolution (3) from the 19 June 2018 meeting, to inform future decision making in relation to the possible divestment of Council's CWMS assets, an independent Prudential Review has been undertaken.

Noting the above, the potential divestment of Council's CWMS assets does not trigger any of the set financial parameters within section 48 of the *Local Government Act 1999*. However, given the significance of the potential divestment of Council's CWMS assets a Prudential Review has been completed to ensure fully informed future decision making in this regard.

The Prudential Review addresses the following criteria in relation to the potential divestment of Council's CWMS assets;

- Relationship to strategic plans
- Objectives of the Development Plan
- Economic development impacts
- Community consultation
- Revenue projections and potential financial risks
- Recurrent and whole of life costs
- Financial viability of the project
- Risks associated with the project
- Appropriate mechanisms to carry out the project
- Sale of land

Various risks and impacts have been identified in the Prudential Review (refer **Appendix 1**). These matters are associated with the divestment of Councils CWMS assets and apply if progressing to a second stage request for tender and subsequent divestment. The assessment and management of these risks and impacts will be undertaken if Council resolves to progress to a second stage request for tender.

#### Community Consultation

The consultation process undertaken is outlined in the Prudential Review and was considered a 'reasonable level of communication' in relation to the project.

#### Probity

Probity services have been maintained throughout the CWMS Review and EOI process since March 2017 to date, in accordance with further Council resolutions at 26 September 2017 and 19 June 2018 meetings.

A common Probity Plan was developed in consultation with the Probity Advisor and was adopted by the JWG to ensure a consistent approach. The Probity Advisor has been present at all relevant JWG meetings, AHC Evaluation Panel meetings and has provided advice when required.

The role of the Probity Advisor is to provide reasonable assurance that the process has been fair and equitable for all interested parties, and that the councils act with integrity, fairness and transparency throughout the CWMS review process.

A Probity report has been provided by the Probity Advisor (see **Appendix 2**) to provide Council with assurance that probity has been maintained throughout this process.

#### **4. OPTIONS**

The Committee has the following options:

- I. To receive and note the Prudential Review and Probity Reports.
- II. The Committee may resolve whether or not to provide comments, advice or guidance in respect to the Prudential Report.

#### **5. APPENDICES**

- (1) Prudential Report
- (2) Probity Report

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# **Appendix 1**

*Prudential Report*

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Potential of CWMS Divestment

Prudential Report for

Adelaide Hills Council

Final  
August 2018

Alan Rushbrook



## Executive Summary

This Prudential Report examines the adverse consequences and potential benefits that may arise from the divestment of Council's Community Waste Water Management Systems (CWMS). Although under no obligation to have a Prudential Report prepared, Council has commissioned the preparation of this report to assist Council when it considers how to proceed with the possible divestment of the CWMS. The report addresses all the prudential topics required under Section 48 of the Local Government Act.

The possible divestment of the CWMS has been considered by Council for a number of years and recently Adelaide Hills Council has participated in an Expression of Interest for the Divestment of their CWMS with the City of Onkaparinga and the Rural City of Murray Bridge. Council is about to consider proceeding to a Request for Tender.

When considering the project it was assessed to not be inconsistent with Council's current Strategic Management Plans nor to be contrary to the objectives of Council's Development Plan.

Whilst constrained by the commercial nature of the project the CWMS customers and community have been informed and given the opportunity to comment on the proposed divestment of the CWMS assets.

A review of the financial risks associated with the sale show that the major uncertainty is the sale price of the CWMS business. Income received from any divestment will increase investment income or reduce Council's finance costs but the value of this will be dependent on the sale price. In addition to this an analysis has shown that without the CWMS the net income to Council will reduce in the order of \$669k per year.

In the longer term a low sale price is likely to have an adverse impact on Council's financial position, whilst a high sale price could improve Council's financial capacity. These outcomes are dependent on the sale price received for the business.

The project has a number of other uncertainties, many of which are complex and difficult to assess. One of the highest risks is the possible impact the project might have on the prices for existing customers and on the possibility for future network expansion. Once sold Council is unlikely to have any control over the prices charged to CWMS customers. The prices will be subject to regulatory oversight and the policies of the new owner. The new owner will not be able to access grant funding which Council can currently apply for, but the new owner may have the financial resources to expand the network.

There are a number of contractual issues which, at the present time, represent a risk to Council should the divestment proceed. Also, there is a risk that the benefits deriving

from this project may be compromised without ensuring there are clear project outcomes moving forward.

The project has a strong governance structure and suitable resourcing for a project of this scale.

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## Introduction

Adelaide Hills Council operates five Community Waste Water Management Systems (CWMS) which collect, transport and treat waste water from properties in seven townships. A total of 1,903 properties are serviced by these schemes. Each of these properties pay an annual fee to fund the operation of the scheme.

In 2016 Council undertook an Expression of Interest (EOI) but that did not reveal interest in the acquisition of Council's CWMS. A short time later Council received an unsolicited bid for the CWMS, which, after consideration, it did not accept.

Since 2017 Council has worked collaboratively with the City of Onkaparinga and the Rural City of Murray Bridge for the potential divestment of Council's CWMS. In 2018 it issued an EOI for the purchase of the CWMS and is currently in process of considering its response.

On 19<sup>th</sup> June 2018 Council passed the following resolution

*"To inform future decision making in relation to divestment of Council's CWMS or otherwise an independent Prudential Review is to be conducted in accordance with Section 48 of the Local Government Act 1999."*

This Prudential Review is consistent with the provisions of Section 48 of the LGA. Some of the requirements to Section 48 have little relevance to this project but the headings have been retained for completeness.

This version of the report has been prepared to inform Council on prudential issues as it considers the outcome of the EOI and decides on what course of action it should take in the future. Should Council decide to proceed with a Request for Tender (RFT) it is intended that this report will be updated and presented to Council when it considers the results of the RFT.



## Prudential Review Criteria

The purpose of a Prudential Review is to foresee and assess what adverse consequences might arise from a project being contemplated by Council. Section 48 of the Local Government Act describes ten prudential issues which must be considered in a prudential report prepared in accordance to that section. Whilst this project does not meet the criteria included in the Local Government Act for preparation of a Prudential Report, those ten issues are used as a framework for review of the projects.

The remainder of this report addresses each of these issues.

### ***i the relationship between the project and relevant strategic management plans;***

This project supports Council's strategic strategy 3.5 which says *"We will take a proactive approach, and a long term view, to infrastructure maintenance and renewal"* by assessing an option for the future management of its CWMS.

The proposed divestment, if it was to occur, would result in Council reducing its involvement in the direct service provision of waste water services, which will presumably allow it to focus resources on the priorities in its strategic plans. No new activities are planned as a result of this project.

The impact on Council's Long Term Financial Plan (LTFP) is discussed in detail later in this report where two potential financial scenarios are reviewed. The least financially favourable scenario sees Council unable to meet its financial targets without other policy interventions for a short period and thereafter meeting its future targets. The more favourable scenario sees Council consistently meeting its financial targets.

The divestment of the CWMS would not be inconsistent with Council's Strategic Management Plans.

### ***ii the objectives of the Development Plan in the area where the project is to occur;***

No development is proposed as a result of this project.

The ponds and pump stations are located within the Watershed Primary Production and Township Centre Zone and these activities are consistent with the objectives of those zones.

***iii the expected contribution of the project to the economic development of the local area, the impact that the project may have on businesses carried on in the proximity and, if appropriate, how the project should be established in a way that ensures fair competition in the market place;***

It is not expected that this project will directly result in any significant changes in the operation of the CWMS. A new owner would continue to provide the same level of service as has been provided in the past and therefore the project is not expected to have an impact on the economic development of the local area, local businesses, nor on competition in the market place.

It is hoped that any new owner will expand the CWMS but if divestment does not take place it would be expected that Council will continue to assess the feasibility of expanding the systems itself. Any expansion would provide economic benefit to the area where the CWMS is installed. It would not have an impact of competition as community waste water systems are monopoly providers, although there would be negative impact on the businesses which supply and maintain the existing onsite waste water systems.

***iv the level of consultation with the local community, including contact with persons who may be affected by the project and the representations that have been made by them, and the means by which the community can influence or contribute to the project or its outcomes;***

The project plan for this project has identified “*Keeping the project team and identified stakeholders informed will be a critical activity*” and has identified communication strategies for each stakeholder group.

Following the finalisation of the EOI Council has undertaken the following community consultation.

- Posted approximately 2,080 letters to existing CWMS customers seeking their comments on the project
- Posted a further 500 letters to properties within the townships of Mylor, Inglewood/Houghton and Summertown/Uraidla seeking their comments on the project
- Sent letters to recipients of recycled water seeking their comments on the project
- Conducted drop-in information sessions held at Gumeracha, Woodside and Stirling
- Published a public notice in the local newspaper

- Published information regarding the project on Council's website and using Council social media channels
- Feedback sought in writing or through short online survey

In addition a short item has been published in the local newspaper informing residents of the proposal.

This consultation process resulted in 36 survey responses. It is understood that all the responses will be made available to Council when they consider the next steps for this project. There has been a reasonable level of communication with the community regarding the proposed divestment.

***v if the project is intended to produce revenue, revenue projections and potential financial risks;***

The financial aspects of this proposal are relatively simple. If the divestment were to occur Council would receive money for the CWMS and no longer have the income and expenditure related to the CWMS. As the CWMS is part of Council's existing operations Council knows how much income it receives and the amount of expenditure it spends, or will not have to spend, should it no longer operate a CWMS. The unknown item, and largest financial risk, is how much Council will receive from the divestment of the CWMS.

**Sale proceeds**

The amount received for the CWMS will be an asset for Council which it can use to further Council's objectives. This amount is unknown.

Legal and professional advice will be required to support the sale process. It is assumed that professional support costs will continue to be shared with the City of Onkaparinga and the Rural City of Murray Bridge. AHC's share has been estimated to be \$50k.

Council is yet to decide if land associated with the CWMS will be included in the sale or whether the land will be leased to the new owner. If the land is included in the sale it is unlikely to change the sale proceeds as the land will have little impact on the future cash flows of the business, which is the most probable basis for potential buyers' determining a purchase price. If the land is leased it is assumed the lease fee will be a peppercorn fee. Therefore both options concerning the land, sell or lease, do not appear to have a material financial impact.

**Loss of ongoing income and expenditure**

After the divestment, assuming Council takes that path, Council will no longer receive income for the CWMS and it will no longer have to pay the direct costs of operating the CWMS.

The following income and expenses would no longer be expected to be earned or incurred from 2019/20 and onwards.

	<b>\$'000</b>
Reduction of Income	\$1,632
Reduction of Employee costs	\$69
Reduction of Materials and contractual expenses	\$596
Reduction of Depreciation expense	\$298
<b>Net reduction in income</b>	<b>\$669</b>

Council's net income, before considering the impact of the sale proceeds, could be expected to reduce by approximately \$669k each year if it no longer owned the CWMS.

It has been assumed that Council's overhead costs will not be affected by the divestment of the CWMS and that staff who worked part time on the CWMS will continue to work at AHC. There is a small ongoing saving in call-out costs.

It should be noted that when Council calculates the CWMS charges for its customers it includes, as required by the ESCOSA pricing principles, all the costs attributable to CWMS operations, including indirect labour costs, overheads and cost of capital. These items are appropriate to consider when calculating CWMS fees, but since Council will not be saving the indirect labour costs or overheads, nor will it need to calculate the cost of capital if the CWMS is sold, they have not been used in the assessment of the financial impact of the sale.

### **Income from proceeds of sale**

The Council can expect to receive income from the sale. The cash received can be used by Council in a number of ways: to reduce debt, fund community activities or to invest. For the purposes of the financial modelling it is assumed that the funds will be used to retire any short term debt of Council and any remaining amount invested.

### **Additional financial impacts**

Another impact of the sale of assets would be on Council's Statement of Comprehensive Income. Any sale price less than the written down value of the CWMS would be shown as a loss in the Statement of Comprehensive Income and if the sale price was higher than the written down value of the assets there would be a surplus of disposal. This would be a once off impact on Council's Net Surplus / (Deficit). Following on from the sale there would need to be an adjustment to the Asset Revaluation Reserve to recognise the revaluation increments of the disposed assets.

The Local Government Act also requires that any amounts held in a reserve established to hold amounts received from a Service Charge are to be applied for another revenue from a service charge "*may be applied for another purpose specifically identified in the council's annual business plan*" (Section 155 (7) Local Government Act, 1999). AHC has a reserve for this purpose, and as at 30 June 2017 it had a balance of \$683k.

This is not a separate source of funds as it is not a cash reserve. Should the divestment proceed Council will need to consider how the balance of this reserve will be applied.

The major financial risk associated with the divestment is the unknown amount that will be received for the CWMS and the consequent impact these funds will have on the Statement of Financial Position and the Statement of Comprehensive Income. All other changes to income and expenditure can be estimated with a high degree of confidence.

The potential financial impacts of Council's LTFP are assessed later in this report.

***vi the recurrent and whole-of-life costs associated with the project including any costs arising out of proposed financial arrangements;***

There are no financing costs associated with this proposed project.

The financial impacts of the project are discussed in other sections of this report.

***vii the financial viability of the project, and the short and longer term estimated net effect of the project on the financial position of the council;***

The Adelaide Hills Council maintains a Long Term Financial Plan (LTFP) which it updates each year during the development of their annual budget.

Using the LTFP dated February 2018 Utintja Consulting undertook an independent assessment of the likely impact of the proposed divestment of the CWMS.

Since the sale proceeds are unknown two scenarios were developed. One using a high sale price and another using a low sale price. The high sale price was determined by calculating the net present value of expected cash flows from the CWMS operations over a 20 year period assuming moderate future fee increases. The low sale price was determined by reference to the net present value of expected cash flows assuming low future CWMS fees.

Both of these amounts were calculated without reference or knowledge of the results of submissions Council received during the recent EOI. Since the estimated sale proceeds has been calculated with access to confidential Council information the estimates have not been disclosed in this report. This ensures that no commercially sensitive information is placed in the public domain thereby maintaining the integrity of the divestment process and importantly allowing all of this report to be accessible to the public.

The major assumptions made in the financial calculations are:

- Divestment to take place in June 2019,
- All figures are expressed in nominal terms (i.e. they show the effect of inflation),
- Based upon the latest LTFP of Council, which was published in February 2018,
- All income and expenditure associated with the CWMS removed from the CWMS calculations, with the exception of,
  - \$69k in employee costs
  - Overhead allocation will not be saved
- Divestment proceeds used to reduce any short term debt and the rest invested in short term financial instruments,
- No lease fee for land (i.e. it is either included in sale or leased at a peppercorn rate), and
- No allowance has been made for the repayment of seed funding grants received from the Local Government Association of SA.

After updating the LTFP for each of the two scenarios, low sale price and high sale price, these were compared to the adopted LTFP outcomes for each of Council's financial indicators. The outcome of this analysis provides a high level picture of the likely long term impact of the divestment of the CWMS.

### **Operating Surplus Ratio**

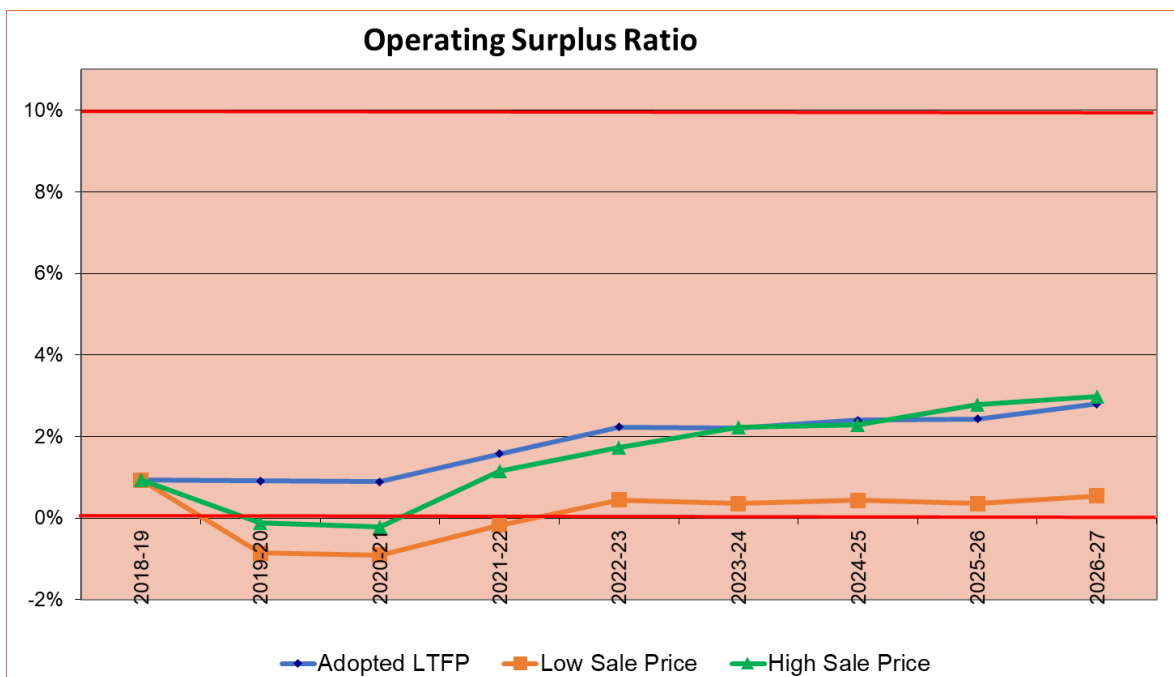
*"The operating surplus ratio indicates the extent to which operating revenue is sufficient to meet all operating expenses and whether current rate payers are paying for their consumption of resources.*

*The Operating Surplus ratio expresses the operating surplus as a percentage of total operating income. A negative ratio indicates the percentage increase in total operating income required to achieve a break-even operating result. A positive ratio indicates the percentage of total rates available to fund capital expenditure over and above the level of depreciation expense without increasing council's level of net financial liabilities.*

**Target: 0–10%"**

*(from page 4 of Adelaide Hills Council Long Term Financial Plan, dated February 2018)*

The table below illustrates the impact of two divestment scenarios on the Operating Surplus Ratio. The red lines indicate Council's upper and lower target range.



The low sale price scenario sees the operating surplus ratio dip into a negative percentage, indicating an operating deficit, in the first two years, before moving to a small surplus. The gap between the low sale price scenario and the adopted LTFP continues to widen over the period of the model indicating that Council would be in a less financially sustainable position in this scenario compared to retaining the CWMS. However, the low price scenario is largely within Council's target, albeit at the low end of the target range.

The high sale price scenario achieves an outcome over the longer term similar to the adopted LTFP. The ongoing loss of income resulting from the divestment of the CWMS is compensated for by the reduction in borrowing costs and / or increase in investment income achieved from the sale proceeds. This scenario, after two years, is within Council's target range.

### Net Financial Liabilities Ratio

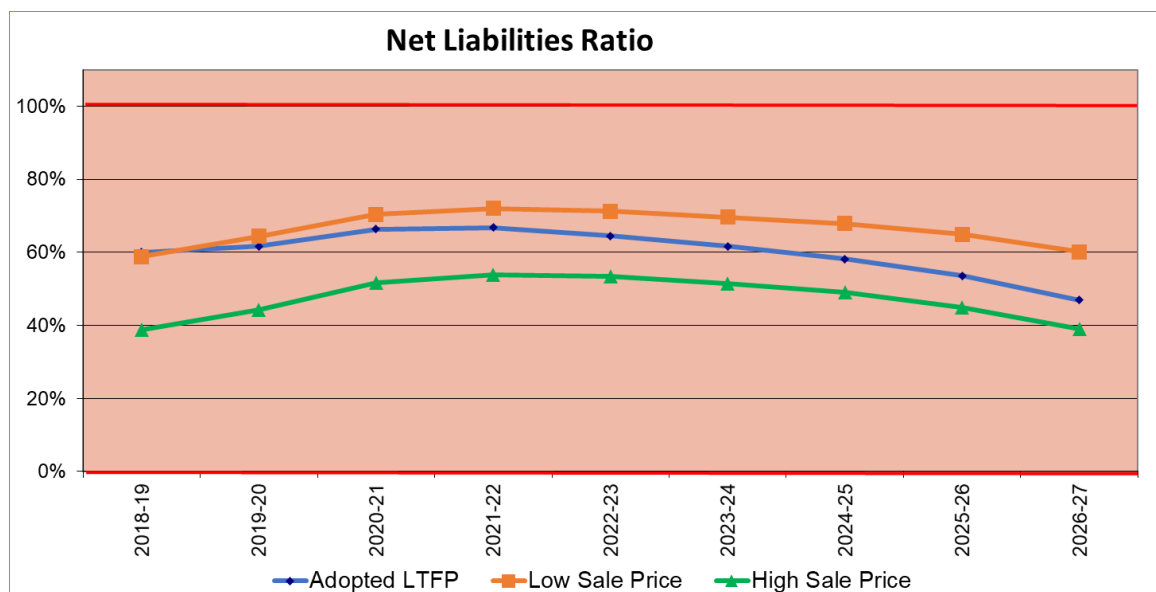
*"Net Financial Liabilities is an indicator of the Council's total indebtedness and includes all of a council's obligations including provisions for employee entitlements and creditors.*

*This ratio indicates the extent to which the net financial liabilities of the Council can be met by the Council's total operating revenue. Where the ratio is falling, it indicates that the Council's capacity to meet its financial obligations from operating revenues is strengthening. Where the ratio is increasing, it indicates that a greater amount of Council's operating revenues is required to service its financial obligations.*

**Target: 0–100%"**

*(from page 4 of Adelaide Hills Council Long Term Financial Plan, dated February 2018)*

The table below illustrates the impact of two sale scenarios on the Net financial Liabilities Ratio. The red line indicates Council’s upper target for this performance indicator.



As would be expected a high sale price reduces the Net Financial Liabilities ratio indicating an increase in Council’s financial capacity when compared to the adopted LTFP. The low sale price scenario shows that Council’s financial capacity will be less than if the CWMS continued to be operated by Council. In both scenarios the Net Financial liabilities ratio is within Council’s target range.

The low sale price scenario would impact on Council’s ability to fund additional capital projects though borrowing whilst the high sale price would enhance Council’s ability to undertake additional capital expenditure for the benefit of the community.

### Asset Sustainability Ratio

*“This ratio indicates whether a Council is renewing or replacing existing infrastructure assets at the same rate that its asset management plan requires.*

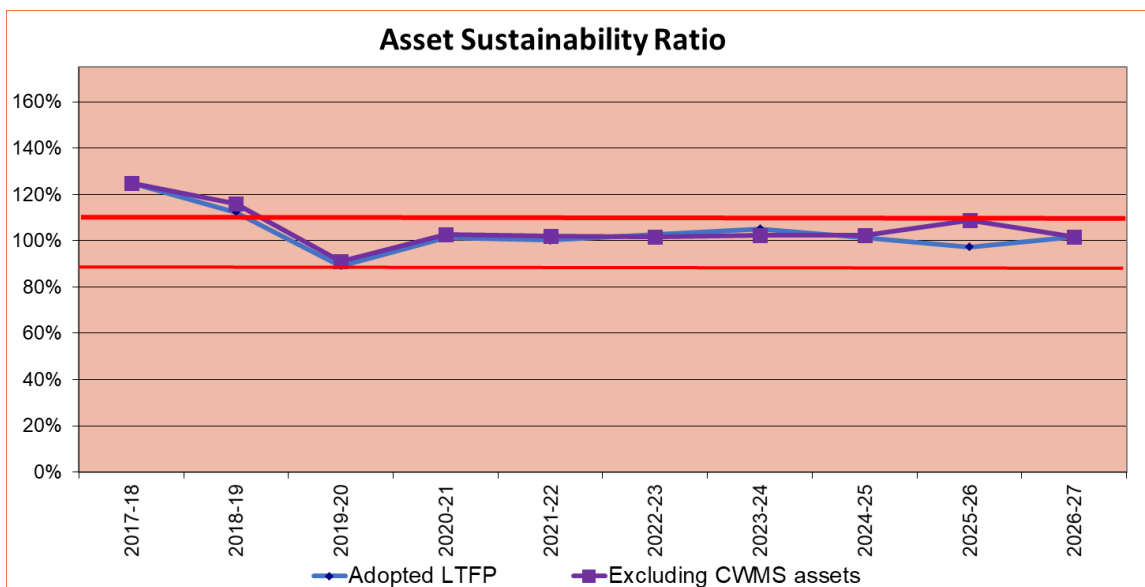
*The target for this ratio is to be between 90% and 110% in any given year, with 100% on average over five years. This would mean that Council is replacing 100% (or all) of the assets that require renewal.*

**Target: 90–110%”**

*( from page 5 of Adelaide Hills Council Long Term Financial Plan, dated February 2018)*

The table below illustrates the impact of a sale on the Asset Sustainability Ratio. There is no difference between the impact of the low or high sale price scenarios on the Asset Sustainability Ratio. The red lines indicate Council’s upper and lower target range.





The sale of the CWMS would not have a significant impact on the Asset Sustainability Ratio as can be seen from the lack of divergence between the two lines on the graph above.

This brief analysis demonstrates the potential impact of the divestment on Council's financial position. A low sale price will limit Council's financial capacity to reduce its level of financial sustainability. A high sale price would enhance Council's financial capacity. Nothing in this analysis would indicate that either scenario was not financially manageable by Council.

The amount Council receives for the CWMS will impact on Council's financial position.

It should be noted that this analysis does not include an analysis on the possible financial impact on CWMS customers resulting from the divestment of the CWMS. This is relevant as there is likely to be an inverse relationship between the proceeds offered to Council and the level of future fees. It is not unreasonable to assume that a third party who offers a high sale price bid would be expecting to recover their acquisition costs through higher fees, all other things being equal. The converse is that a lower acquisition price means that the purchaser has less pressure on customer charges to recover their investment. This is discussed later in the report, but essentially there could be a trade-off between the proceeds received by Council and the fees paid by customers.

The proposed divestment, depending on the sale price received, could have a material impact on Council's financial position and impact on its financial capacity.

***viii any risks associated with the project, and the steps that can be taken to manage, reduce or eliminate those risks (including the provision of periodic reports to the chief executive officer and to the council);***

The structure of Council with its supporting legislation, organisational structures, delegations, professional staff, reporting processes and mature systems provide a strong control environment for any well-defined project, such as the one under consideration.

Added to the strong control environment are the project governance structures that have been established for this project which provides an added layer of assurance and management of the risks associated with this project.

No project is without risks and Utintja Consulting has identified the following major risks associated with the divestment project.

**Adverse community, political and media attention (AA)**

The selling of an asset held by public authorities can be the source of significant public concern. Misgivings could emanate from a philosophical position about the sale of publicly owned assets through to specific concerns about how they might be personally impacted.

This proposed divestment is unusual in that there is no known precedent of a South Australian Council selling its CWMS to another party, although it is understood that one other South Australian Council is considering a divestment of its CWMS. Because it is unique, it is difficult to both learn from and point to the experience of others who have walked this path previously.

Much of the public concern relates to the loss of control that customers feel they will experience if they have another provider of their waste water system. Presently they may feel they have more influence, both at an individual level and at a collective level, on the local council if the service they receive is not up to the standard they expect. They probably feel that they have elected representatives they can contact, they know that they can comment on proposed fees and have access to officers in their locality. None of these options to influence may be available if another provider operates the CWMS scheme. This may lead to a sense of disempowerment and loss of control which may be expressed through action.

With Council about to enter an election period there is a risk that this issue could become an election issue.

Council has been active in ensuring that the public is informed about Council's process and have been able to participate in a community consultation process. It has conducted public information sessions to provide information on the divestment process.

The risk is not that there will be public discussion about the project, the risk is that there might be ill-informed discussion which could result in unnecessary community concern about the process which could reflect poorly on Council and hinder objective decision making.

The level of response to the recent community consultation indicates that there is not a high level of community concern about this project. The majority of the small number who responded were opposed to the potential divestment and there were a few who would be supportive of Council's decision.

With proactive communications this risk should be able to be well managed. This is assessed as a **low** risk for Council.

### **Does not achieve outcomes for customer (CO)**

Through this project Council is wishing to see if it can reduce the risk inherent in owning and operating a CWMS and obtain a financial benefit which it can use to improve community outcomes in the future. It also does not want to see its current customers disadvantaged in terms of the service they receive and the price they pay.

At the present time Council is responsible for the operations of the CWMS. It is a regulated operation in which Council must meet a range of operational and administrative guidelines. If it is negligent in its conduct Council could be liable to fines or charges, be required to make good any damage or service shortcomings and may face potential legal liability. Council takes reasonable precautions to not only ensure that it carries out its activities with due diligence, it also insures itself against a range of risks which could emanate from risks associated with operation the CWMS.

The Council would want to satisfy itself that any future operator is able to successfully hold a licence to operate a CWMS. Similarly, it would be seeking a commitment regarding the future fees it would expect to charge customers.

The operation of the CWMS are well regulated, with strict environmental, health and operational controls in place. There is an active system independent of Council of reporting faults and ensuring they are rectified. There is also a regulatory system which ensures that pricing is controlled.

In the absence of any attempts to provide contractual assurance regarding future fees and or operations, any future operator would be free to act as they wish as long as they meet their licence conditions. Once Council was to divest itself of the CWMS it would lose operational and financial control of the scheme.

The risk of the new operators not operating the scheme to a high standard is relatively low, given the due diligence checks that Council would include in the RFT process and the regulatory and licencing framework which exists.

The regulatory pricing controls will put a cap on future prices. The new operator would need to comply with the National Water Initiative Pricing Principles and only pass on "efficient" costs to customers and only charge a rate of return calculated according to

well documented principles. There is uncertainty how a new owner would apply past credits for contributed assets.

Currently Council only charges a relatively low rate of return in calculating its CWMS prices and it is possible a new owner may have higher debt or equity costs, which would result in a higher cost structure which would be recovered through customer fees. Conversely, a large organisation which already services a large number of other customers may be able to spread its operating costs over its entire network in a way which may benefit prices charged to local customers. The pricing variables are almost endless. A new owner may not adopt network pricing and charge each scheme a different price depending on the cost of running each scheme. They may not use the Property Units code but rather property valuations as a basis for levying fees. Any of these decisions could result in higher or lower prices for particular properties.

In summary, it is likely that Council can ensure that through a rigorous divestment process, the risk of a poor operator and inadequate service to customers is low. Whilst Council will not have control over any future operators it can rely on the comprehensive regulatory environment in which the CWMS operates. However, there is a risk, which is difficult to manage, with respect to future prices customers may have to pay. Whilst Council charges its CWMS customers close to what is referred to as upper bound revenue, other operators will have different internal policies for calculating upper bound revenue which are likely to result in prices different to those charged currently by Council.

Being able to manage this risk is difficult. Council could assess the current policies and prices charged by future RFT respondents or it could offer financial incentives to maintain reasonable prices, or it could simply rely on the application of the regulated pricing principles.

This remains a **high** risk in the divestment process.

### **Contractual Risks (C)**

The sale of an operating business is a complex undertaking.

Council has a number of contracts with third parties for the supply of water from the CWMS which do not have assignment clauses. This creates a risk for any new owner and a possibly a residual risk for Council. Should the current arrangement not be able to be continued, there is a risk of a legal challenge to a sale contract or other loss that might eventuate as a result of this uncertainty.

At the present time Council has not decided on whether it will offer the land on which the CWMS are located as part of the divestment. The two straight forward options are to lease the land to the new operator or include the land in the sale. Since the land on which the CWMS are located is designated community land, Council must go through a revocation of community land process before it can dispose of the land. The revocation process includes a community consultation process, consideration by

Council and then the approval by the Minister of Local Government. This is a complex process, which, by its very nature, the outcome of which cannot be guaranteed and therefore provides a very real risk to the divestment process.

Council has the option of leasing the land if it was not possible, or not desired, and sell the plant and equipment of that land.

Whilst they can be managed, at the current time the contractual risks associated with the divestment are assessed to be **medium**.

Consideration should be given to clarifying these issues prior to proceeding to the RFT.

### **Development of future areas (FD)**

It is reported that due to the high number of failing private waste water systems and community demand, Council would like to see new schemes constructed in Mylor, Houghton / Inglewood, Summertown / Uraidla where no CWMS currently exist.

Should Council divest themselves of the CWMS operations they would expect the new owner to take responsibility for the development of the new schemes. Once Council no longer manages CWMS schemes it would be expected the Council would quickly, and quite reasonably, lose its current expertise in managing and operating CWMS schemes. This would then make the previous model of Council constructing and operating a CWMS less feasible.

Therefore, following divestment of the CWMS, any new scheme would need to be constructed by the new operator. A new operator may be asked to provide assurances on developing waste water systems in new areas and be asked to demonstrate their financial ability to fund the investment required, but it is unlikely that they would be willing to be contractually bound to such an undertaking. They would, presumably, make an independent judgement of the feasibility on developing new parts of the network.

Council has been able to develop new schemes in the past with the assistance of State Government funding made available through the Local Government Association. The current funding deed does not make allowance for grants to be paid from this funding source to bodies other than local government bodies. Unless there is a change to the funding deed it appears that a valuable source of grant funding will not be available to operators who are not local governments. This may have the effect of either making the schemes less viable at reasonable fees or requiring high customer fees to recover the capital costs.

In the absence of any compensating facts, the removal of access to State Government CWMS funding results in a risk for the future development of additional CWMS schemes. This risk might be able to be mitigated in a sale agreement but that would require careful consideration.

The Council has received past funding for the development of plans for new CWMS schemes, totalling in the vicinity of \$350k. The usual condition of these grants is that they are to be repaid unless the proposed schemes proceeds, or it is not viable to proceed.

Assuming it is the desire of Council to see these other towns provided access to a CMWS this is a **high** risk which would benefit from further investigation prior to proceeding with the RFT.

### **Failure of private company (F)**

If Council were to divest the operations of the CWMS to a private company there is a risk that company may, for whatever reason, experience difficulties which may result in it being unable to fulfil their licence requirements. If this were to occur the Water Act 2012 makes it clear that the Essential Service Commission of SA (ESCOSA) would be responsible for arranging for an operator to maintain the system. In the case of failure by a private operator it would not be Council's responsibility to rectify any problems caused by the operator.

This is assessed to be a **low** risk.

### **Clarity of project objectives (PO)**

For Council to ensure maximum benefit is achieved out of the current divestment process it is important that they have clear objectives and priorities for the sale. Without clarity of purpose a sub optimal outcome may result.

Considerable time has elapsed since this project commenced. When the first EOI was undertaken the waste water industry was in a period of transition with the recent introduction of the Water Act, the consequent introduction of licencing and pricing principles as well a steadily increasing environmental expectations. Over this period Council has been able to respond to the changing regulatory environment and in doing so has probably reduced the level of risk previously associated with the operation of the CWMS.

Also, there remains an opportunity for Council should it retain the CMWS to assess how it can improve its own management of the CWMS, and this could include consideration of service reviews, outsourcing maintenance and / or management.

Council should be aware of the risks and benefits that arise from continued ownership as without this the information the option of continuing to own the CWMS cannot be compared to any offer to purchase the CWMS.

Similarly it is important that Council be confident on the priority of other project goals, whether they be network expansion, customer pricing, maintenance of the network, financial outcomes for Council etc. At the present time there does not appear to be clarity on the outcomes being sought by this project.

It is understood that Council will have the opportunity to discuss the divestment at an elected members workshop and later at a council meeting. Consideration should be given to determining an objective set of minimum standards required to be achieved by a successful tenderer and what outcomes, and their priority, are important for Council to achieve from this project. This would go some way to ensuring an acceptable and measurable outcome for the Council and the community is achieved.

This issue, as it currently stands, is assessed as a **medium** risk.

### Assessment of Risks

The table below is a summary of the major project risk identified.

Consequence →	Insignificant	Minor	Moderate	Major	Catastrophic
↓ Likelihood					
Almost Certain					
Likely		CO		FD	
Possible			PO, C		
Unlikely	F	AA			
Rare					

#### Key to Risk rating

Low risk	Medium risk	High risk	Extreme risk
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The risks with the rating of High Risk both relate to customer outcomes, be it pricing or expansion of the network. It is important that consideration be given to the management of these risks if the divestment process is to move forward.

### ***ix the most appropriate mechanisms or arrangements for carrying out the project;***

The project has a strong governance structure in place which adds to the existing organisational controls. Working with two other Councils, Adelaide Hills Council staff have been able to share the expertise and costs during this project. The Joint Working Group is a non-binding group which facilitates joint divestment strategy of each council. The group has provided strong project governance with a well-documented structure, good records and strong commitment to the group activities. The Joint Working Group is an effective way to share resources and expertise across the three Councils.

Internally there is a structured approach to ensuring the internal processes are progressed with a structured Project Management Team, made up of appropriate personnel and adequately resourced with internal and external resources.

The project governance arrangements described above are suitable for a project of this type.

***x if the project involves the sale or disposition of land, the valuation of the land by a qualified valuer under the Land Valuers Act 1994.***

It has yet to be confirmed if land will be sold as part of the CWMS divestment

Council receives annual valuations from the Valuer General, who by definition of the office in the Valuation of Land Act 1971, is a licensed valuer under the Land Valuers Act 1994. The most recent valuation valued the land on which CWMS are located at a value of \$704k.

Whilst this section refers to the disposition of land, it is worthwhile noting the Adelaide Hills Council has sought and received a commercial valuation on the CWMS. Given the nature of the project, and the fact that the land is an integral part of the CWMS system there is no reason to justify a separate commercial valuation of the subject land.



## About Utintja Consulting

Utintja Consulting is a South Australian consulting firm which specialises in providing financial governance services to local government. The owner, and author of this report, is Alan Rushbrook.

Alan Rushbrook is a Fellow of CPA Australia and has over 25 years local government experience. He has worked for four South Australian councils and during his 10 years working as a consultant he has provided services to most Councils in South Australia, the SA Local Government Financial Management Group, Local Government Association SA, and the Office of State / Local Government Relations. Alan currently provides services to clients throughout Australia.

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# **Appendix 2**

*Probity Report*

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8 August 2018

John McArthur  
Manager Waste and Emergency Management  
Adelaide Hills Council  
63 Mount Barker Road,  
Stirling SA 5152

Dear John

**Probity Advisory Report in relation to the Community Wastewater Management Systems (CWMS) Review**

Powell & Co has been engaged by Adelaide Hills Council to provide probity advisory services in relation to the Community Wastewater Management Systems (CWMS) Review. The Expression of Interest for the potential divestment of CWMS phase of the project has been undertaken in conjunction with City of Onkaparinga and Rural City of Murray Bridge (known as the Joint Working Group). The services have been conducted in accordance with our proposal dated 22 March 2017.

**Purpose of this letter**

The purpose of this report is to inform you of our findings since our appointment to date.

Our work was undertaken in accordance with ASRS 4400 Agreed-Upon Procedures Engagements to Report Factual Finding. The responsibility for determining the adequacy, or otherwise, of the procedures agreed to be performed, rests with AHC.

**Findings**

We have undertaken a number of probity advisory tasks since our appointment on 22 March 2017 to ensure adequate probity measures are in place.

**Conclusion**

Based on our observations and review of documents, following the procedures agreed upon with Adelaide Hills Council, nothing has come to our attention to indicate that reasonable probity has not been maintained during the evaluation process of the CMWS review.

We conclude that the evaluation followed the documented process and that it was fair and equitable for all respondents and that security and confidentiality was maintained throughout the process.

**Limitation on use of this report**

The services provided was a review and did not constitute a financial statement audit and the extent of my procedures and services are limited exclusively for this purpose only. Our engagement cannot be relied upon to disclose irregularities including fraud, other illegal acts and errors that may exist, however, no such matters have come to my attention.

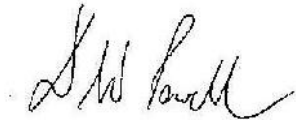
This report has been prepared at the request of the Manager Waste and Emergency Services. This report should be considered in its complete form. It should not be quoted or summarised without the written consent of the author.

Other than my responsibility to the Council, I do not take responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed by a third party on this report is that party's responsibility.

**Closing**

We thank you for the opportunity to provide this report to Adelaide Hills Council. I would be pleased to discuss this letter in detail or assist you further if requested. Should you have any queries, please contact me on 041 440 7171.

Yours sincerely  
Powell & Co

A handwritten signature in black ink, appearing to read 'D Powell', written in a cursive style.

David Powell  
Managing Director Powell & Co

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.3

**Originating Officer:** Lachlan Miller, Executive Manager Governance & Performance

**Responsible Director:** Andrew Aitken, Chief Executive Officer

**Subject:** External Audit Interim Letter

**For:** Information

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**SUMMARY**

Council's external auditors (Galpins) attended Council's Stirling offices in May 2018 to undertake interim field work as part of their 2017-18 audit program.

This report provides an update to the Audit Committee from Galpins of their findings in relation to 2017-18 Financial Controls Review detailing the outcomes from their field work in relation to internal controls.

Management have provided a response to the findings contained within the interim report and this response is provided within this report to the Audit Committee.

**RECOMMENDATION**

**That Audit Committee:**

1. **Receives and notes the report.**
2. **Notes the communication received from Galpins from their Interim visit relating to the - 2017-18 External Audit and the Management Response to their findings from the Interim Audit.**

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**1. GOVERNANCE**

➤ **Strategic Management Plan/Council Policy**

Goal 5            Organizational Sustainability  
Strategies       Risk and Responsibility (Financial and asset sustainability) and Governance

Monitoring internal control assists in meeting legislative and good governance responsibilities and obligations.

The External Auditor's annual inspection and certification of Council's financial position and performance provides the community with an assurance of Council's internal financial control environment.

➤ **Legal Implications**

Part 3 – Accounts, Financial Statements and Audit, *Local Government Act 1999* and Part 6 – Audit, *Local Government (Financial Management) Regulations 2011*.

➤ **Risk Management Implications**

The implementation of the Internal Financial Control Model and testing of Council's transactions and internal controls by an external auditor will assist in mitigating the risk of:

*Internal control failures occur which leads to greater uncertainty in the achievement of objectives and/or negative outcomes.*

Inherent Risk	Residual Risk	Target Risk
High (4C)	Medium (3C)	Low (2E)

➤ **Financial and Resource Implications**

Satisfactory internal financial controls provide the foundation for Council's financial management and reporting framework.

The costs associated with the provision of external audit services are contained within the Governance & Performance Department 2018-19 budget.

➤ **Customer Service and Community/Cultural Implications**

There is a high expectation that Council has appropriate corporate governance processes in place including an effective internal control environment.

➤ **Environmental Implications**

Not applicable.

➤ **Community Engagement/Consultation**

Not applicable.

## 2. BACKGROUND

Amendments to s129 of the *Local Government Act 1999* (the Act) require auditors to provide an opinion regarding internal controls of councils. This applies to prescribed (metropolitan) councils from 2013-14 onwards, and to non-prescribed (regional) councils from 2015-16 onwards. This opinion focuses on councils' obligations under s125 of the Act:

*“A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records.”*

The audit opinion is restricted per s129 of the Act to the application of s125 as it relates to financial internal controls, specifically the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

In order to assist the Council in addressing the requirements of s129, Galpin have reviewed a prioritised list of controls from the better practice model based on our initial audit risk assessment.

Like the audit opinion with respect to annual financial statements, the internal controls opinion is provided to Council. It becomes a public document, to be published with Council's financial statements and the financial statements audit opinion.

### **3. ANALYSIS**

Galpins Annual Audit Plan for the year ended 30 June 2018 was presented to the Audit Committee in April 2018. The Plan highlighted the timing of the Galpins interim visit and the preparation of a management letter in relation to that visit to be communicated to the Audit Committee.

In accordance with the plan, Galpins attended Council's Stirling office in May 2018 to undertake testing of Council's internal controls assessments and reviews as part of the interim audit.

The objectives of the interim audit were to:

- understand Council's business, business cycles and processes relevant to the financial statements
- understand the internal controls in place for the areas we consider critical for the audit of the financial statements
- design internal controls tests for the internal controls identified
- perform the internal controls tests to determine the final risks of material misstatements in the financial statements to be addressed in our final audit
- review a prioritised list of internal financial controls we consider critical for the purpose of issuing a controls opinion.

The scope of this audit included a review of key internal controls (consisting of a prioritised list of controls from the better practice model), that are considered key controls, to be in place for the purpose of addressing the requirements of s129.

The Interim Report on the 2017-18 External Audit (**Appendix 1**) includes an update of the audit opinion in relation to internal controls, and states:

*'Overall the Council demonstrated a high level of compliance with the implementation of an internal control framework consistent with the principles within the Better Practice Model.*

*During our interim visit we noted that most of the key internal controls reviewed were in place and were operating effectively (75 out of 100 core controls reviewed). The principles underpinning the model were used by the Council in the identification of its business cycles, the establishment of its internal controls and the implementation of its financial risk management processes.'*

In addition, in relation to ongoing monitoring and self-assessment, it was noted:

*'that Council has established mechanisms to ensure ongoing monitoring of effectiveness of the internal controls such as an internal controls self-assessment and test of effectiveness of internal controls. We were impressed with the accuracy of these self-assessments which were largely consistent with the audit findings, and wish to highlight that many of the findings provided in this report had also been identified by Council during its own self-assessment. Additionally, many higher risk findings had action plans developed and in some cases being implemented.*

The audit expressed a positive end of year forecast concluding that:

*' there is a high likelihood of issuing an unmodified controls opinion at the end of the financial year. This will depend on the Council demonstrating continued progress towards addressing identified control weaknesses, ensuring that the existing core controls in place continue to operate effectively and that the annual internal control activities are performed at year end.'*

Management have provided a response to the findings contained within the interim report and those have been included in Galpins Financial Control Review Interim Management Letter (**Appendix 1**).

#### **4. OPTIONS**

The Audit Committee is limited to receiving and noting this report.

#### **5. APPENDIX**

(1) Galpins Financial Controls Review Adelaide Hills Council Interim Management Letter



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# **Appendix 1**

*Galpins Financial Controls Review Adelaide Hills Council  
Internal Management Letter*

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# Galpins

Accountants, Auditors & Business Consultants

## Financial Controls Review

### Adelaide Hills Council

Interim Management Letter



#### Mount Gambier

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## 1. EXECUTIVE SUMMARY

### 1.1 Background

During our interim audit we perform procedures to gain an understanding of the internal controls in place relevant to the financial statements and perform tests of design and effectiveness for these controls. Based on the results of the control testing, we then assess the audit risks to define the extent and nature of our substantive procedures (e.g. inspection of documents, recalculation, reconciliation, etc) for our final visit.

Amendments to s129 of the Local Government Act 1999 require auditors to provide an opinion regarding internal controls of councils. This applies to prescribed (metropolitan) councils from 2013-14 onwards, and to non-prescribed (regional) councils from 2015-16 onwards. This opinion focuses on councils' obligations under s125 of the Local Government Act 1999:

*"A council must ensure that appropriate policies, practices and procedures of internal control are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard the council's assets, and to secure (as far as possible) the accuracy and reliability of council records."*

The audit opinion is restricted per s129 of the Act to the application of s125 as it relates to financial internal controls, specifically the controls exercised by the council during the relevant financial year in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities.

In order to assist the Council in addressing the requirements of s129, we have reviewed a prioritised list of controls from the better practice model based on our initial audit risk assessment. Further details about our scope can be found in item 1.2 of this report.

### 1.2 Objectives and scope

The objectives of our interim audit were to:

- understand Council's business, business cycles and processes relevant to the financial statements
- understand the internal controls in place for the areas we consider critical for the audit of the financial statements
- design internal controls tests for the internal controls identified
- perform the internal controls tests to determine the final risks of material misstatements in the financial statements to be addressed in our final audit
- review a prioritised list of internal financial controls we consider critical for the purpose of issuing a controls opinion.

The scope of our audit included a review of internal controls we consider key controls to be in place for the purpose of addressing the requirements of s129.

These key internal controls consist of a prioritised list of controls from the better practice model. This list was defined based on our risk assessment to determine the key business cycles, and key risks within these business cycles, that we understand should be the focus of the Council's control self-assessment.

The identification of key core controls and key business risks included the following risk assessment procedures:

**Risk review** – A review of Council's inherent risk assessment for internal financial controls.

**Financial statement review** – A high level financial statement review performed to identify key accounts and transaction streams.

**Internal / external audit results review** – The findings and recommendations of internal / external financial audits are reviewed to identify known areas of weakness, and areas known to be attracting audit attention.

The key core controls for the following key business cycles have been identified as critical for the purpose of issuing a controls opinion this financial year:

- Purchasing and Procurement/Contracting
- Fixed Assets
- General Ledger
- Accounts Payable
- Rates / Rates Rebates
- Payroll
- Receipting
- Credit Cards
- Banking
- Debtors

We have included a list of key controls identified by the audit for these business cycles as an appendix to this report (see Appendix 1). This list does not represent a complete population of internal controls that the Council should have in place. There is an expectation that controls not in this list will still exist and be operating effectively within Council.

The list of controls is only intended to be a guide for Council to prioritise its resourcing in readiness for the audit opinion, and for the ongoing monitoring of internal controls i.e. it is a risk based listing of controls which may be desirable for Council to include in its ongoing monitoring program for internal financial controls.

The list should not be considered a minimum standard – rather, it is a starting reference point for Council to consider. It is expected that Council will have performed a risk assessment of financial risks, and given consideration to the need to monitor controls that address High / Extreme risks that may not be included in this listing.

### 1.3 Category of findings

In order to assist the Council in establishing the overall level of control effectiveness and prioritising areas for attention, we have provided an overall assessment of the business cycles for which we have identified performance improvements opportunities (this report is prepared on an exception basis).

We assessed each business cycle using our risk assessment which was focused on the risk of finding material weaknesses which could lead to a modified controls opinion in the 2017/18 financial year. An overall assessment of the risk of a potential modified audit opinion per business cycle is provided in item 1.5 of this report.

Detailed findings including the controls tested as per the Better Practice Model, findings and recommendations are provided in section 2 of this report. The individual findings are also rated to assist the Council in prioritising corrective actions.

The overall assessment of the risk of non-compliance with s125 of the Local Government Act 1999 and the related findings and recommendations were rated as follows:

Category	Description
<b>High Risk Weaknesses</b>	The issue described could lead to a material weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Moderate Weaknesses</b>	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 weakness in the council's internal controls and non-compliance with s125 of the Local Government Act.
<b>Low Risk Weaknesses</b>	The issue described is a low risk weakness due to the existence of compensating controls and/or the failure or absence of the internal controls does not impact significantly on the council's financial risk. 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.
<b>Better Practice Weaknesses</b>	The issue described has been included in this report as an opportunity for better practice.

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

## 1.4 Overall review of the council's internal controls

Overall the Council demonstrated a high level of compliance with the implementation of an internal control framework consistent with the principles within the Better Practice Model.

During our interim visit we noted that most of the key internal controls reviewed were in place and were operating effectively (75 out of 100 core controls reviewed). The principles underpinning the model were used by the Council in the identification of its business cycles, the establishment of its internal controls and the implementation of its financial risk management processes.

A summary of the results of our review is provided in the table below:

Business cycles	Controls Reviewed	Operating Effectively	2018 Findings			
			2018	H	M	L
Purchasing & Procurement/Contracting	10	4	2	4	-	-
Fixed Assets	16	11	-	4	1	-
General Ledger	11	8	1	2	-	-
Accounts Payable	13	10	-	3	-	-
Rates / Rates Rebates	10	7	-	2	1	1
Payroll	19	16	-	2	1	-
Receipting	5	3	-	-	2	-
Credit Cards	5	5	-	-	-	-
Banking	5	5	-	-	-	-
Debtors	6	6	-	-	-	-
<b>Total</b>	<b>100</b>	<b>75</b>	<b>3</b>	<b>17</b>	<b>5</b>	<b>1</b>

We recommend that Council prioritises the high risk findings, as continued failure in these controls may lead to a material weakness and non-compliance with s125 of the Local Government Act.

Moderate risk findings should also receive some priority, as failure in compensating controls addressing the same risk or existence of multiple moderate weakness within the same business cycle may lead to a material weakness and non-compliance with s125 of the Local Government Act.

We noted that Council has established mechanisms to ensure ongoing monitoring of effectiveness of the internal controls such as an internal controls self-assessment and test of effectiveness of internal controls. We were impressed with the accuracy of these self-assessments which were largely consistent with the audit findings, and wish to highlight that many of the findings provided in this report had also been identified by Council during its own self-assessment. Additionally, many higher risk findings had action plans developed and in some cases being implemented.

Audit have concluded that there is a high likelihood of issuing an unmodified controls opinion at the end of the financial year. This will depend on the Council demonstrating continued progress towards addressing identified control weaknesses, ensuring that the existing core controls in place continue to operate effectively and that the annual internal control activities are performed at year end.



## 1.5. Summary of findings

Business Cycle	Findings	Risk
<b>Purchase, Procurement and Contracting</b>	2.1.1 There are no policies or procedures providing guidance on the use of purchase orders.	M
	2.1.2 Audit identified two instances where evidence of procurement procedures undertaken for two suppliers were not located.	H
	2.1.3 Audit found four instances where suppliers with significant cumulative spend did not have a signed contract in place.	H
	2.1.4 There are no current processes in place to review purchasing patterns to ensure optimal use of preferred suppliers.	M
	2.1.5 The preferred suppliers list contains suppliers with expired insurance policies and a number of documents that were not marked as provided.	M
	2.1.6 There are no standard procedures requiring procurement panel members to provide a conflict of interest declaration.	M
<b>Fixed Assets</b>	2.2.1 Council has maintained its assets in manual spreadsheets since the 2015/16 financial year.	M
	2.2.2 Asset Management Plan for Transport Assets was last adopted in 2012.	M
	2.2.3 The Capitalised Asset (Accounting Policy) was adopted on 25 June 2013. The policy has been due for review since June 2015.	M
	2.2.4 There are no access restrictions in the folder where the fixed asset register spreadsheets are saved.	L
	2.2.5 Asset maintenance is performed on a reactive basis. Maintenance schedules do not correspond with the Asset Management Plans.	M
<b>General Ledger</b>	2.3.1 There are no mechanisms to ensure a list of users with access to finance functions in Open Office is formally reviewed on a regular basis.	H
	2.3.2 Manual journal entries are manually approved after being posted. Audit identified a number of journals without approval.	M
	2.3.3 A Business Continuity Plan was last reviewed and adopted in April 2011.	M
<b>Accounts Payable</b>	2.4.1 Improvements are necessary in the process of uploading the EFT file into the online banking system.	M
	2.4.2 There is no formal process to ensure the supplier master file data is periodically reviewed for ongoing pertinence.	M
	2.4.3 The audit trail of changes to the suppliers' master files are not formally reviewed by management. Review is performed on an ad hoc basis.	M
<b>Rates</b>	2.5.1 An audit trail report containing all changes in the property master file is not formally reviewed by an officer independent from the rates function.	M
	2.5.2 A list of rate rebates and non-rateable properties were not formally reviewed by Finance Management for the 2017/18 financial year.	M
	2.5.3 The rates notices raised for finance officers who own properties in Council's area have not been independently reviewed.	L
	2.5.4 There is no formal recalculation for a sample of rates payers to ensure correct calculation and methodology used.	BP
<b>Payroll</b>	2.6.1 Improvements are necessary in the process of uploading the EFT file into the online banking system.	M
	2.6.2 The audit trail of changes to the employees' master files are not formally reviewed by management. Review is performed on an ad hoc basis.	M
	2.6.3 Termination payments are not formally approved by Management.	L
<b>Receipting</b>	2.7.1 Receipts are reconciled to the daily takings on an ad-hoc basis. Reconciliations signed by a preparer and a reviewer are not retained on file.	L
	2.7.2 There are no processes in place to ensure that a receipt reversed by a cashier is reviewed by an independent reviewer.	L
<b>Credit Cards</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
<b>Banking</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A
<b>Debtors</b>	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act.	N/A

## 2. DETAILED AUDIT FINDINGS

### 2.1 PURCHASING AND PROCUREMENT

#### 2.1.1 Absence of Documented Processes for Purchase Orders

Moderate

<b>Control</b>	Council has a Procurement Policy that provides direction on acceptable methods and the process for procurement activities to ensure transparency and value for money within a consistent framework, with consideration of any potential conflicts of interest.
<b>Risk</b>	Council does not obtain value for money in its purchasing and procurement.

Finding	Recommendations	Management Response
<p>It is important that Council has a well-defined process to ensure a clear direction on when to use purchase orders and an indication of transactions that are exempted. The use of purchase orders provides detail to the supplier of what is being purchased, the agreed costs, conditions that the supplier must comply with and the payment terms of the Council. Receipting and processing of invoices is also more streamlined when purchase orders are provided.</p> <p>Audit noted that there are no policies or procedures providing guidance on when purchase orders are required and when a purchase is exempted from the use of a purchase order. Audit acknowledges that there is a procurement framework being developed by Management.</p> <p>Audit reviewed a report listing all payments performed in a weekly pay run and noted that out of the 30 items above \$2,000 only 8 payments had a purchase order matched to an invoice. Audit acknowledges that there may be legitimate reasons for not raising a purchase order for some payments (e.g. tax payments, payment of utilities, etc). However, these exemptions should be formally defined and documented in a policy or procedure.</p>	<p>Processes and framework for raising a purchase order, including details of when a purchase or payment is exempt from a contract and/or purchase order, are documented and appropriately communicated to staff.</p> <p>After establishing these processes, management periodically produces a report containing all payments with no purchase order to be reviewed to identify any instances of non-compliance.</p> <p>Audit supports council's current plans to develop a more robust procurement framework.</p>	<p>Agree with finding and the Procurement Framework will address this issue.</p>

## 2.1.2 Evidence of Procurement Procedures Undertaken

High

<b>Control</b>	Employees must ensure all purchases are in accordance with Council's Procurement Policy and approved in accordance with the Delegations of Authority and other relevant policies.
<b>Risk</b>	Council does not obtain value for money in its purchasing and procurement.

Finding	Recommendations	Management Response
<p>The procurement policy provides that the minimum procurement requirement for purchase above \$100,000 is an open request for tender or EOI. Audit noted the following performance improvement observations for a sample of suppliers with cumulative above \$100,000:</p> <ul style="list-style-type: none"> <li>▪ Boral Construction Material Group (in 2017/18 the total cumulative spend was \$1,380,783). There were no evaluation/assessment documents providing reasons for selecting this supplier. Audit acknowledges that the request for tender and tender responses from other suppliers were retained on file.</li> <li>▪ Maxima Tempskill (in 2017/18 the total cumulative spend was \$381,407). Evidence of procurement procedures undertaken, tender responses or documents substantiating reasons for exempting this supplier from the procurement procedures listed in the procurement policy could not be located on Council's records.</li> </ul>	<p>All documentation related to procurement procedures undertaken (e.g. request for tenders, tender responses, evaluation forms detailing the decision made, etc) are retained on file.</p> <p>When procurement procedures are not undertaken and an exemption is provided, reasons for the exemption are documented and approved by the appropriate delegated officer in accordance with the procurement policy.</p>	<p>Agree with finding and will ensure Procurement Framework and supporting procedures emphasise the need for appropriate documentation to be retained to substantiate procurement decisions and adherence to process.</p>

### 2.1.3 Absence of Formal Contracts and Agreements

High

<b>Control</b>	Employees must ensure all purchases are in accordance with Council's Procurement Policy and approved in accordance with the Delegations of Authority and other relevant policies.
<b>Risk</b>	Council does not obtain value for money in its purchasing and procurement.

Finding	Recommendations	Management Response
<p>Audit selected a number of suppliers for review based on cumulative spend. Council could not locate in its records a signed contract for the following suppliers:</p> <ul style="list-style-type: none"> <li>▪ Maxima Tempskill (in 2017/18 the total cumulative spend was \$381,407). Council has been in an informal agreement with this supplier over the last 20 years.</li> <li>▪ Nova Group Services (in 2017/18 the total cumulative spend was \$344,509). Council was in the process of collecting the appropriate signatures.</li> <li>▪ Kent Civil Ltd Pty (in 2017/18 the total cumulative spend was \$338,004). Council was in the process of collecting the appropriate signatures.</li> <li>▪ Falzon Brick Paving &amp; Excavation (in 2017/18 the total cumulative spend was \$72,248). Council was in the process of collecting the appropriate signatures.</li> </ul>	<p>Council ensures that procedures to enter into a contract are documented within the new procurement framework currently being developed.</p> <p>Council to ensure that there are formal agreements with suppliers with significant cumulative spend, and that works are not commenced prior to signing of contracts.</p>	<p>Agree with finding and will ensure Procurement Framework and supporting procedures emphasise the need for appropriate documentation to be retained to substantiate procurement decisions and adherence to process.</p>

## 2.1.4 Review of Purchase Patterns

Moderate

<b>Control</b>	There is a process in place to review purchasing patterns and ensure maximum use of preferred suppliers.
<b>Risk</b>	Purchases of goods and services are made from non-preferred suppliers / Purchase order are either recorded inaccurately or not recorded at all.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
<p>There is no current process in place to review purchasing patterns to ensure optimal use of preferred suppliers.</p> <p>Audit acknowledges that Council has recently obtained summarised payment information by supplier by year since the Open Office system was implemented in 2013-14. It is proposed that this information will be used by the new Procurement Coordinator to review purchasing patterns and ensure optimal use of preferred suppliers.</p>	<p>A formal process to review purchasing patterns is established to ensure optimal use of preferred suppliers.</p>	<p>Agree with findings. However, it is proposed not to introduce a formal process, but have a requirement for Council to review its purchasing patterns on a regular basis and at least annually.</p>

## 2.1.5 List of Preferred Suppliers

Moderate

<b>Control</b>	The organisation has a process in place to ensure use of preferred suppliers where relevant to maximise the best value for money to Council
<b>Risk</b>	Council does not obtain value for money in its purchasing and procurement.

Finding	Recommendations	Management Response
<p>Audit obtained the preferred supplier list and noted a number of suppliers for which their public liability insurances were expired.</p> <p>The list also provides an indication of whether the supplier provided the relevant documents in relation to the following:</p> <ul style="list-style-type: none"> <li>▪ Licenses, tickets and competencies needed for the work</li> <li>▪ Job safety requirements</li> <li>▪ Workcover registration</li> <li>▪ Acknowledgement of AHC hazards</li> </ul> <p>Audit noted a number of cells left blank in the listing with no indication of whether documents in relation to the topics above were supplied.</p>	<p>The listing of preferred suppliers is reviewed on a regular basis to identify any expired or outstanding documents.</p>	<p>Agree with finding to update the listing of preferred suppliers on a regular basis so as to ensure listing is up-to-date.</p>

**2.1.6 Conflict of Interest Declaration****Moderate**

<b>Control</b>	The selection panel is made up of appropriate personnel who have declared any relevant conflict of interest to ensure that informed and objective decision is made when selecting contractors.
<b>Risk</b>	Council is not able to demonstrate that all probity issues have been addressed in the Contracting process.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
<p>There are no standard procedures requiring panel members to provide a conflict of interest declaration when assessing a specific tender/procurement process.</p> <p>Audit selected a sample of 10 suppliers based on cumulative spend and found there were no conflict of interest declarations prepared and filed for the procurement of these suppliers.</p> <p>Audit notes that the Procurement Officer is in the process of including a section to address conflict of interest matters in the new acquisition plan currently being developed.</p>	<p>Panel members are required to provide conflict of interest declarations when assessing a procurement / tendering process.</p>	<p>This requirement will be built into the Framework/procedures documentation.</p>

## 2.2 FIXED ASSETS

### 2.2.1 Asset Registers

Moderate

#### Control

There is a process in place for the verification of fixed assets which is reconciled to the FAR

#### Risk

Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all. Fixed Asset Register (FAR) does not remain pertinent

Finding	Recommendations	Management Response
<p>Council has maintained its asset registers in manual spreadsheets since the 2015/16 financial year. Since that time, condition assessments have been undertaken for roads and footpaths, and revaluations have been undertaken for CWMS and Buildings. The results of these condition assessments and revaluations have not been reflected in updates to the manual spreadsheets.</p> <p>Council has not been able to establish automated links from the GIS systems to its fixed asset register due to the use of manual spreadsheets.</p> <p>Audit acknowledges that Council is currently working towards the implementation of an electronic asset register (Confirm).</p>	<p>Council proceeds with the implementation of an electronic asset register.</p> <p>The results of the revaluations and condition assessments performed are reflected in the electronic asset register.</p>	<p>It is proposed to transfer infrastructure and building assets into Confirm for the 17/18 and future years.</p>



## 2.2.2 Asset Management Plan

Moderate

<b>Control</b>	Asset Management Plans for all major asset classes are adopted and reviewed by Council as required by the Local Government Act 1999
<b>Risk</b>	Fixed Asset maintenance and/or renewals are inadequately planned

Finding	Recommendations	Management Response
<p>The Asset Management Plan for Transport Assets was last adopted in 2012. At a minimum, the Local Government Act 1999 requires that council undertakes a comprehensive review of its asset management plans within 2 years after each general election of the council, meaning the plan is overdue for review. Management is currently performing a major review of this asset management plan.</p> <p>Asset Management Plans have not been adopted for other major asset classes, such as buildings and storm water infrastructure.</p>	<p>The Transport Asset Management plan is finalised and adopted by Council.</p> <p>Asset Management Plans are prepared for other major asset classes.</p>	<p>As part of the migration of data into a new asset management system Council has undertaken extensive review of its data and in particular Transport Assets. Council has undertaken an internal review of the Transport Asset Class that has informed current long term planning. Council is currently in the process of formally updating the 2012 Transport Asset Management Plan by January 2019.</p>

## 2.2.3 Capitalised Asset (Accounting Policy)

Moderate

<b>Control</b>	Council has an asset accounting policy which details thresholds for recognition of fixed assets which is monitored to ensure adherence
<b>Risk</b>	Fixed assets acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all. Fixed asset registers does not remain pertinent.

Finding	Recommendations	Management Response
<p>The Capitalised Asset (Accounting Policy) was adopted on 25 June 2013. The policy has been due for review since June 2015. The policy mentions accounting treatments that are no longer permitted by Australian Accounting Standards such as residual value of roads.</p>	<p>The Capitalised Asset (Accounting Policy) is reviewed and updated to reflect current and desired practice.</p>	<p>This document has been removed as a formal Policy of Council but is used as an operational guideline for the capitalisation of assets. It is agreed that this document should be updated to reflect current accounting standards.</p>

**2.2.4 Access Restriction to the FAR****Low**

<b>Control</b>	Maintenance of the fixed asset register is limited to appropriate staff with consideration to segregation of duties.
<b>Risk</b>	Fixed assets acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all. Fixed asset registers does not remain pertinent.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
There are no access restrictions on the folder where the fixed asset register spreadsheets are saved, and the spreadsheets are not password protected. Any employee who can access the Council's network can access the folder.	Ensure that access restrictions are in place to allow only the finance manager and the management accountant to have access to the fixed asset register.	Risk is low as each of the registers is reconciled to the general ledger on an annual basis. The Plant and Equipment Register is protected by password. It is proposed to transfer infrastructure and building assets into Confirm for the 17/18 and future years

## 2.2.5 Asset Maintenance

Moderate

<b>Control</b>	Asset maintenance is planned and monitored with relevant staff in accordance with the Asset Management Plans.
<b>Risk</b>	Fixed assets acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all. Fixed asset registers does not remain pertinent.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
Audit noted that asset maintenance is performed on a reactive basis. Updated asset maintenance plans have been developed for some asset categories but current maintenance schedules do not always correspond with the Asset Management Plans.	Ensure that maintenance schedules are in accordance with Asset Management Plans, and steps are taken to progress towards more proactive maintenance plans.	<p>Council has approved additional resources to undertake planning of future maintenance works.</p> <p>Council is reviewing service levels (initial priority – Stormwater) to identify the required maintenance activities to ensure the required performance of those assets. The clarity regarding the agreed service level will allow better planning and the associated scheduling of proactive maintenance.</p> <p>Council is currently ensuring integration between its CRM system (customer requests) and the Confirm Enterprise Asset Management System to ensure alignment with reactive requests and planned maintenance.</p>

## 2.3 GENERAL LEDGER

2.3.1 IT Users' Access Controls		High
<b>Control</b>	Access to General Ledger maintenance is restricted to appropriately authorised personnel.	
<b>Risk</b>	General Ledger does not contain accurate financial information / Data contained within the General Ledger is permanently lost.	

Finding	Recommendations	Management Response
<p>There are no current mechanisms to ensure a complete list of users with access to finance functions in Open Office is formally reviewed on a regular basis by finance management.</p> <p>Our review of user access identified the following potentially excessive access rights that Management may consider when performing a review of IT users' access rights to finance modules:</p> <ul style="list-style-type: none"> <li>- 11 users with administrator access to the payroll function;</li> <li>- 9 users with administrator access to the financial function;</li> <li>- 5 users with access to rates assessment in the rates system;</li> <li>- 12 users with administrator access to cashlink.</li> </ul> <p>Audit acknowledges that Management may consider some of the above access rights to be appropriate. The purpose of our listing them is to recommend that Management considers the extent of access rights described above when performing a formal review of a complete list of IT users' access rights.</p>	<p>Finance Management performs a formal review of a complete list of users' access rights to ensure adequate segregation of duties within the finance functions in Open Office.</p> <p>Key areas of access that should be considered in this review include:</p> <ul style="list-style-type: none"> <li>- Banking</li> <li>- Rates</li> <li>- Accounts Payable</li> <li>- Accounts Receivable</li> <li>- Receipting</li> <li>- Payroll</li> <li>- Fixed assets</li> <li>- Purchasing</li> <li>- Approval of purchase orders; and</li> <li>- General ledger</li> </ul>	<p>Agree with finding.</p> <p>ICT are developing a regular process for the review of system access to finance functions by the Management Accountant and ultimate sign off by the Manager Financial Services.</p>

### 2.3.2 Approval of Manual Journal Entries

Moderate

<b>Control</b>	Journal entry access is restricted to appropriately authorised personnel.
<b>Risk</b>	General Ledger does not contain accurate financial information

Finding	Recommendations	Management Response
<p>When a manual journal entry is posted by a preparer in Open Office a reviewer is allocated to that journal in the system. However, allocating a reviewer does not mean that this person has actually authorised or even seen the journal, and the journal is posted immediately after the preparer posts it (ie. the system does not require the approval of the reviewer before the manual journal entry is posted).</p> <p>After the journal is posted the preparer prints the journal to be manually approved by the reviewer via a physical signature on the printout. The name of the reviewer appears in the printed journal as “authorised by”. Again, this does not mean that the reviewer has electronically approved the journal as the journal is actually manually approved with a signature on the printed journal. If an error is identified by the reviewer, the journal must be reversed and posted again.</p> <p>Audit selected 25 manual journal entries and identified 12 journals showing “authorised by” and name of a reviewer on the printed copy, however the journal had not been manually signed as authorised by the reviewer.</p>	<p>Manual journal entries are approved before the manual journal entry is posted.</p> <p>Investigate the ability to enable digital approval of manual journals in the Open Office system prior to posting of journals.</p>	<p>Council has investigated whether the current version of Open Office allows electronic approval of journals.</p> <p>It has been agreed that no authoriser will be selected for journals and the authoriser who approves the journal will manually sign the hard copy of the updated journal.</p>

**2.3.3 Business Continuity Plan****Moderate**

<b>Control</b>	Formal disaster recovery plan is in place and communicated to relevant staff.
<b>Risk</b>	Data contained within the General Ledger is permanently lost.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
The current Business Continuity Plan was last reviewed and adopted in April 2011. Audit notes that the Executive team has considered Council's risk in this area and has authorised the procurement of extra human resources in the governance area in 2017/18 to facilitate the update of this plan.	The Business Continuity Plan is updated.	Following the review of resources and functions in the Governance & Performance Department, the review of the BCP has been scheduled in 2018/19.

## 2.4 ACCOUNTS PAYABLE

### 2.4.1 Upload of EFT Files – Accounts Payable

Moderate

**Control** Payments (Cheques and EFTs) are endorsed by authorised officers separate to the preparer who ensure that they are paid to the specified payee.

**Risk** Accounts payable amounts and disbursements are either inaccurately recorded or not recorded at all.

Finding	Recommendations	Management Response
<p>Audit reviewed the process of accounts payable batch payments and noted the following:</p> <p>Council's financial system generates an EFT file which is stored on council's internal drive prior to being manually uploaded into the online banking system. The EFT file can be opened as a TXT (text format) file and potentially be manually manipulated prior to being uploaded. Currently, there are nine different officers plus system administrators with access to the folders where the EFT file is stored.</p> <p>Audit acknowledges that Council has initiated some investigations with NAB to implement a direct interface between Open Office and the online banking system.</p>	<p>Continue to investigate whether it is possible to implement a way to enable a direct interface between the finance system and the online banking system.</p> <p>Alternatively, Council can investigate ways to ensure that the file is generated as "read-only".</p> <p>If the direct interface cannot be implemented, Management should consider comparing the bank account details provided by the online banking system to a register of supplier's bank accounts provided by the finance system (supplier master file) before authorising each payment batch. This matching does not need to be a manual process as it can be automated, for example using an Excel spreadsheet.</p> <p>In addition, it is recommended that Finance Management review the appropriateness of the users with access to the folder where the EFT file is stored.</p>	<p>Agree with finding.</p> <p>Council is currently following up with NAB to implement a direct interface between Open Office and the online banking system.</p>

## 2.4.2 Creditors Master File

Moderate

<b>Control</b>	There is a process in place to ensure the supplier master file is periodically reviewed for ongoing pertinence.
<b>Risk</b>	Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.

Finding	Recommendations	Management Response
<p>There is no formal process to ensure the supplier master file is periodically reviewed for ongoing pertinence.</p> <p>Audit performed a review of the Council's creditors master file and noted the following:</p> <ul style="list-style-type: none"> <li>- the master file contains a total of 3678 active suppliers;</li> <li>- there are 101 suppliers with cancelled ABN registrations; and</li> <li>- there are 1394 suppliers accounts that have not been used since 2013.</li> </ul>	<p>Finance Management performs a regular formal regular (e.g. on an annual basis) of the supplier master file data to ensure that:</p> <ul style="list-style-type: none"> <li>- only current and valid suppliers are active in the system;</li> <li>- supplier master file data includes a valid ABN number;</li> <li>- only one master file entry is created for each individual supplier (unless there is a valid reason for a supplier to have more than one master file entry);</li> <li>- only suppliers that are currently in use are active (ie. review the need of having active suppliers that have not been in use for long time); and</li> <li>- bank account details are allocated only to an individual supplier master file entry (unless there is a valid reason to have bank account details allocated to more than one master file entry).</li> </ul>	<p>The following has been added to the End of year procedure:</p> <p><i>“Perform review of the supplier master file data to ensure that:</i></p> <ul style="list-style-type: none"> <li>- <i>only current and valid suppliers are active in the system;</i></li> <li>- <i>supplier master file data includes a valid ABN number;</i></li> <li>- <i>only one master file entry is created for each individual supplier (unless there is a valid reason for a supplier to have more than one master file entry if so note reason on supplier file);</i></li> <li>- <i>only suppliers that are currently in use are active (change status of suppliers that have not been in use for a long time to Historic); and</i></li> </ul> <p><i>bank account details are allocated only to an individual supplier master file entry (unless there is a valid reason to have bank account details allocated to more than one master file entry – note reason on supplier file).”</i></p>



### 2.4.3 Audit Trail of Changes to the Supplier Master File

Moderate

<b>Control</b>	Requested changes or additions to supplier master file are verified independently of source documentation.
<b>Risk</b>	Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.

Finding	Recommendations	Management Response
Open Office generates a report named "Creditor Audit Report by Creditor" which provides all changes to the suppliers' master file. This report is reviewed on a weekly basis in an adhoc manner.	Management formalises the review of the Creditor Audit Report by Creditor, including providing evidence of review (i.e. the signature of an independent officer).	<p>The following has been added to the end of month procedure:</p> <p><i>"Review Master File amendments - review the Creditor Audit Report by Creditor with supporting documents to check accuracy and provide evidence of review (i.e. the date and signature of an independent officer)."</i></p>

## 2.5 RATES

### 2.5.1 Audit Trail of Changes to the Property Master File

Moderate

<b>Control</b>	Recorded changes to property master file data and any rate adjustments are compared to authorised source documents to ensure that they were input accurately. An audit trail is maintained for all changes
<b>Risk</b>	The property master file data does not remain pertinent.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
Open Office does not generate an audit trail of changes to the property master file. Consequently, an audit trail report containing all changes in the property master file is not formally reviewed by an officer independent from the rates function.	Audit acknowledges the system limitation. An alternative solution is to obtain the general ledger transaction listings from accounts where rebates, objections and any other adjustment are recorded and formally review these in the periods following initial rates generation. This will enable Management to detect any changes in rates performed after the rates generation that have had a financial impact in the Council's general ledger.	The General Ledger is checked regularly for rate income accounts but on an informal basis. We have now updated the procedure to formalise the review of the rates general ledger income accounts on a monthly basis commencing from July 2018.

**2.5.2 Review of a List of Rebates and Non Rateable Properties****Moderate**

<b>Control</b>	All rate rebates and adjustments including write offs are appropriately authorised with reference to Delegations of Authority and source documents.
<b>Risk</b>	Rates and rate rebates are either inaccurately recorded or not recorded at all.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
A list of rate rebates and non rateable properties were not formally reviewed by Finance Management for the 2017/18 financial.	A list of rate rebates and non rateable properties is formally independently reviewed prior to rates generation.	Acknowledged. A listing of rebates and non-rateable properties has been reviewed in conjunction with the Manager, Financial Services for 2018/19.

**2.5.3 Independent Review of Rates Raised for Finance Officers Living in Council's area****Low**

<b>Control</b>	Employees responsible for processing rate payments and rebates cannot process their own payments or rebates unless the transaction is approved by someone independent of the process.
<b>Risk</b>	Rates and rate rebates are either inaccurately recorded or not recorded at all.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
The rates notices raised for finance officers who own properties within the Council area have not been independently reviewed.	<p>Rates notices raised for finance officers who own properties within the Council area are independently reviewed.</p> <p>In addition, audit recommends that other finance officers who do not own properties in Council's area are required to sign a document stating that they do not own any property within the Council area.</p>	Rate notices for current Senior Rates Officer are printed as one of a number of proof notices from the printer and are returned each quarter for approval before being printed and posted. In addition Manager Financial Services and Director Corporate Services could be added to the list.

## 2.5.4 Recalculation of Rates Notices

Better Practice

<b>Control</b>	Rates are generated and tested for accuracy of calculation methodology prior to the rates billing run.
<b>Risk</b>	Rates and rate rebates are either inaccurately recorded or not recorded at all.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
There is no formal recalculation performed for a sample of rates payers to ensure correct calculation and methodology used.	Consideration is given to introducing a procedure whereby the rates officer, prior to issuing rates notices, selects a sample of rate payers across different property types and formally documents the results of the recalculation performed.	This already exists, however the documentation was not kept for audit process. Prior to rate notices being posted a sample of proofs is returned by the printer for checking before approval is given.

## 2.6 PAYROLL

### 2.6.1 Upload of EFT Files – Payroll

Moderate

<b>Control</b>	The payment of the payroll is authorised by appropriate staff not involved in the preparation of the payroll.
<b>Risk</b>	Payroll disbursements are made to incorrect or fictitious employees

Finding	Recommendations	Management Response
<p>Audit reviewed the process of payroll payments and noted the following:</p> <p>Council's financial system generates an EFT file which is stored on council's internal drive prior to being manually uploaded into the online banking system. The EFT file can be opened as a TXT (text format) file and potentially be manually manipulated prior to being uploaded. Currently, there are nine different officers with access to the folders where the EFT file is stored.</p> <p>Audit acknowledges that Council has initiated some investigations with NAB to implement a direct interface between Open Office and the online banking system.</p>	<p>Continue to investigate whether it is possible to implement a way to enable a direct interface between the finance system and the online banking system.</p> <p>Alternatively, Council can investigate ways to ensure that the file is generated as "read-only".</p> <p>If the direct interface cannot be implemented, Management should consider comparing the bank account details provided by the online banking system to a register of employee's bank accounts provided by the finance system (employee master file) before authorising each payment run. This matching does not need to be a manual process as it can be automated, for example using an Excel spreadsheet.</p> <p>In addition, it is recommended that Finance Management review the appropriateness of the users with access to the folder where the EFT file is stored.</p>	<p>Agree with finding.</p> <p>Council is currently following up with NAB to implement a direct interface between Open Office and the online banking system with the assistance of IT.</p>

## 2.6.2 Audit Trail of Changes to the Employees' Master Files

Moderate

<b>Control</b>	Payroll system generates audit reports detailing all payroll changes and there is a process in place to ensure all changes are reviewed and verified against source documents.
<b>Risk</b>	Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
<p>Open Office generates audit trail reports detailing all changes to the employees' master file. These reports are reviewed on a weekly basis. There was no evidence (e.g. a signature) of the independent person who reviewed these reports.</p> <p>Audit acknowledges that the audit trail reports are attached to the 'payroll payment authorisation checklist' that is approved by two managers each pay run. However, the checklist signed by the managers does not mention the review of the audit trail reports.</p>	<p>Management formally evidences review of the audit trail reports detailing changes to the employees' master files, for example via the signature of the independent on the reports and/or by updating the 'payroll payment authorisation checklist' to include reference to the audit trail report.</p>	<p>The Payrun Summary Checklist has been updated to ensure all audit reports provided each payrun are checked. This is documented by the two people reviewing the pays.</p>

## 2.6.3 Approval of Termination Payments

Low

<b>Control</b>	There is process in place to ensure termination payments comply with relevant policies, procedures and legislation
<b>Risk</b>	Employee termination payments are not in accordance with statutory and enterprise agreements.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
There are no formal processes to ensure that termination payments are approved by Management.	Processes are introduced to ensure that termination payments are formally approved by management.	The current Termination Checklist, used each pay period when an employee leaves Council's employment, has been updated to include notification from Organisational Development to the Payroll Officer of an employee's termination date and that the resignation letter and Council's acceptance letter has been received, showing that the termination has been formally approved by management.

## 2.7 RECEIPTING

2.7.1 Reconciliation of Receipt Transactions to Daily Takings		Low
<b>Control</b>	Receipts transactions are reconciled to the daily takings and out-of-balance banking is corrected promptly.	
<b>Risk</b>	Receipts are either inaccurately recorded or not recorded at all.	

Finding	Recommendations	Management Response
Receipts transactions are reconciled to the daily takings on an ad-hoc basis. Formal reconciliations signed by a preparer and a reviewer are not retained on file.	Formal reconciliations of the receipt transactions to the daily takings are retained on file and signed by a preparer and a reviewer.	<p>Daily drawer close off procedures require the cashier to check cash, cheque and eftpos totals against those receipted in the drawer. Once all totals have been agreed the cashier will close the drawer. The details of the bank bag associated with that session are recorded in the close off. The Cashier's log details are captured within the session as having balanced the drawer. Finance independently reconciles the bank deposits associated with that Cashlink session and bank bag deposits. Any discrepancies are communicated to the Team Leader Customer Service and Services Coordinator for follow up.</p> <p>In summary, a formal reconciliation is not performed, but management is comfortable that other controls in the overall procedure are sufficient to reduce risk to a tolerable level, and for that reason Management is willing to accept the risk of not having a formal reconciliation in place.</p>



**2.7.2 Approval of Reversal of Receipts****Low**

<b>Control</b>	There is a review process for the authorisation of the reversal of transactions.
<b>Risk</b>	Receipts are either inaccurately recorded or not recorded at all.

<b>Finding</b>	<b>Recommendations</b>	<b>Management Response</b>
There are no processes in place to ensure that a receipt reversed by a cashier is reviewed by an independent reviewer.	Processes are introduced to ensure that all reversed receipts are reviewed by an independent person when the reversal is processed.	This finding has been noted and addressed. We now have a procedure in place that requires evidence be provided for all receipt reversals. In addition, independent witnessing is also required for any reversals that involve a change in amounts taken or customer details.

## **APPENDIX 1 – CRITICAL INTERNAL FINANCIAL CONTROLS**

### Purchasing and Procurement

#### Risks

R1	Council does not obtain value for money in its purchasing and procurement.
R2	Purchases of goods and services are made from non-preferred suppliers.
R3	Purchase orders are either recorded inaccurately or not recorded at all.
R4	Purchase orders are made for unapproved goods and services.

RISKS	Control	Control Type
R1	Council has a Procurement Policy that provides direction on acceptable methods and the process for procurement activities to ensure transparency and value for money within a consistent framework, with consideration of any potential conflicts of interest.	Core
R1,R2	Employees must ensure all purchases are in accordance with Council's Procurement Policy and approved in accordance with the Delegations of Authority and other relevant policies.	Core
R1	The organisation has a process in place to ensure use of preferred suppliers where relevant to maximise the best value for money to Council	Core
R2,R3	There is a process in place to review purchasing patterns and ensure maximum use of preferred suppliers	Additional
R3	Purchase order numbers are either system generated and/or sequentially numbered.	Core
R3	There is a process in place to ensure all invoices for payment are matched to relevant source documents such as purchase orders where applicable and are in line with Procurement Policy guidelines.	Core
R3	There is a process in place to follow up and action incomplete purchase orders.	Additional

### CONTRACTING

#### Risks

R1	Council is not able to demonstrate that all probity issues have been addressed in the Contracting process.
R2	Council does not obtain value for money in relation to its Contracting.

RISKS	Control	Control Type
R1,R2	There are robust and transparent evaluation and selection processes in place to engage contractors where relevant in accordance with the Code of Conduct, Conflict of Interest and Procurement Policy.	Core
R1	The selection panel is made up of appropriate personnel who have declared any relevant conflict of interest to ensure that informed and objective decision is made when selecting contractors.	Core
R1	Council maintains a current contract register.	Core

## FIXED ASSETS

## Risks

R1	Fixed asset acquisitions, disposals and write-offs are fictitious, inaccurately recorded or not recorded at all. Fixed Asset Register (FAR) does not remain pertinent.
R2	If fixed assets are not securely stored, they may be subject to damage or theft.
R3	If fixed assets are not valued correctly, the management reports and financial statements will be misstated. For example, incorrect carrying values may result from the use of inappropriate depreciation rates.
R4	Depreciation charges are either invalid, not recorded at all or are inaccurately recorded which includes inappropriate useful lives and residuals.
R5	Fixed Asset maintenance and/or renewals are inadequately planned.

RISKS	Control	Control Type
R1	There is a process in place for the verification of fixed assets which is reconciled to the FAR.	Core
R1	Recorded changes to the FAR and/or masterfile are approved by appropriate staff compared to authorised source documents and General Ledger to ensure accurate input.	Core
R1	All fixed asset acquisitions and disposals are approved in accordance with Delegation of Authority and relevant Procurement and Fixed Asset Policies.	Core
R1	Maintenance of the fixed asset register is limited to appropriate staff with consideration to segregation of duties.	Core
R1	Council has an asset accounting policy which details thresholds for recognition of fixed assets which is monitored to ensure adherence.	Core
R1	Reconciliation of fixed assets to the General Ledger is performed in accordance with schedule of review or procedure.	Core
R1	Asset register calculations are reviewed for accuracy.	Core
R1	Fixed assets are recorded on acquisition, creation or when provided free of charge to facilitate accurate identification of assets and recording of details with regards to the Asset Accounting Policy.	Core
R1	Asset maintenance is planned and monitored with relevant staff in accordance with the Asset Management Plans	Additional
R2	Where appropriate, fixed assets are secured and access is restricted to appropriate staff and authorised users.	Core

RISKS	Control	Control Type
R2	Where appropriate, identification details are recorded for portable and attractive assets such as IT and fleet assets, on acquisition to facilitate accurate identification.	Additional
R3	Relevant staff review useful lives, residuals, valuations, depreciation methodology and test for impairment as required by Accounting Standards and legislation to ensure that methods used are still appropriate and significant changes are incorporated into Asset Management Plans.	Core
R3	Profit or loss on disposal calculations can be substantiated and verified with supporting documentation.	Core
R4	Depreciation charges are calculated in accordance with the asset accounting policy and compliant with relevant accounting standards, including the useful life, depreciation method and residual values.	Core
R5	Asset Management Plans are prepared and renewal expenditure and programmed maintenance required is reviewed periodically to reflect changing priorities, additional asset data and other relevant factors.	Core
R5	Asset Management Plans for all major asset classes are adopted and reviewed by Council as required by the Local Government Act 1999.	Core

## GENERAL LEDGER

## Risks

R1	General Ledger does not contain accurate financial information
R2	Data contained within the General Ledger is permanently lost.

RISKS	Control	Control Type
R1,R2	All major updates and changes to General Ledger finance system are authorised, tested and documented.	Core
R1,R2	Access to General Ledger maintenance is restricted to appropriately authorised personnel.	Core
R1	Reconciliation of all balance sheet accounts are completed in accordance with a schedule of review and/or procedure.	Core
R1	All balance sheet reconciliations are reviewed by a person other than the preparer at least annually.	Core
R1	Journal entry access is restricted to appropriately authorised personnel.	Core
R1,R2	Financial data is backed up and stored offsite.	Core
R1	Finance system does not allow posting of unbalanced journals or if it does regular reviews are conducted on the suspense account and discrepancies investigated and actioned.	Core
R1	Amendments to the structure of the General Ledger framework and accounts are reviewed and approved by appropriately authorised personnel.	Core
R1,R2	General Ledger policies and procedures are appropriately created, updated and communicated to relevant staff.	Core
R2	Formal disaster recovery plan is in place and communicated to relevant staff.	Core
R1	There is a process in place to review actual vs budget and significant variances investigated.	Core

## ACCOUNTS PAYABLE

## Risks

R1	Accounts payable amounts and disbursements are either inaccurately recorded or not recorded at all.
R2	Credit notes and other adjustments to accounts payable are either inaccurately recorded or not recorded at all.
R3	Disbursements are not authorised properly.
R4	Accounts are not paid on a timely basis.
R5	Supplier master file data does not remain pertinent and/or unauthorised changes are made to the supplier master file.

RISKS	Control	Control Type
R1,R2,R4	Statements received from suppliers are reconciled to the supplier accounts in the accounts payable subledger regularly and differences are investigated.	Additional
R3	Records must be maintained of all payments with supporting documentation.	Core
R1	Payments are endorsed by relevant staff separate to the preparer, who ensures that they are paid to the correct payee.	Core
R5	Access to the supplier masterfile is restricted to authorised staff	Core
R2,R5	Separation of Accounts Payable and Procurement duties.	Core
R3	All invoices and payment requests are approved in accordance with relevant policies and/or Delegations of Authority.	Core
R1	Predetermined variances between Purchase Orders and Invoices are assessed and payment released only after verification by the officer with delegation to do so.	Additional
R1	Payments are verified to appropriate supporting documentation and are in line with Delegations of Authority.	Core
R4	Relevant staff to review aged payables listing on a predetermined basis and investigate where appropriate.	Core
R5	Recorded changes to the supplier master file are compared to authorised source documents to ensure that they were input accurately.	Core

RISKS	Control	Control Type
R5	Requested changes or additions to supplier masterfile are verified independently of source documentation.	Additional
R4	There is a system generated report detailing supplier invoices due for payment at any one time.	Core
R5	There is a process in place to ensure the supplier master file is periodically reviewed for ongoing pertinence.	Additional



## RATES / RATES REBATES

## Risks

R1	Council does not raise the correct level of rate income.
R2	Rates and rate rebates are either inaccurately recorded or not recorded at all.
R3	The Property master file data does not remain pertinent.
R4	Rates are not collected on a timely basis.

RISKS	Control	Control Type
R1,R2	Rates are automatically generated by the rate system, including the calculation of rate rebates and other parameters as applicable.	Core
R2	Rates are generated and tested for accuracy of calculation methodology prior to the rates billing run	Core
R1	All software changes to rate modelling functionality fully tested and reviewed by relevant staff.	Core
R1	There is a rating policy in place that is reviewed annually that provides clear guidance on rating methodology and relevant rebates and remissions in line with legislation.	Core
R2	Annual valuation update is balanced prior to the generation of rates; all mismatches resolved prior to finalising rate generation.	Core
R2	All rate rebates and adjustments including write offs are appropriately authorised, with reference to Delegations of Authority and source documents.	Core
R4	There is a process in place to ensure that rates are collected in a timely manner and overdue rates are followed up.	Core
R3	Recorded changes to property master file data and any rate adjustments are compared to authorised source documents to ensure that they were input accurately. An audit trail is maintained for all changes.	Core
R3	Access to the Property master file is restricted to appropriately designated personnel, with a process in place to ensure changes are in line with policies and procedures.	Core
R2	Employees responsible for processing rate payments and rebates cannot process their own payments or rebates unless the transaction is approved by someone independent of the process	Core

## PAYROLL

## Risks

R1	Payroll expense is inaccurately calculated.
R2	Payroll disbursements are made to incorrect or fictitious employees.
R3	Time and/or attendance data is either invalid, inaccurately recorded or not recorded at all.
R4	Payroll master file does not remain pertinent and/or unauthorised changes are made to the payroll master file.
R5	Voluntary and statutory payroll deductions are inaccurately processed or without authorisation.
R6	Employees termination payments are not in accordance with statutory and enterprise agreements.

RISKS	Control	Control Type
R1	Where possible standard programmed formulae perform payroll calculations.	Core
R1, R3	There is a process to ensure all overtime is verified and approved by relevant appropriate staff.	Core
R1	All calculations for generating payroll payments are verified for accuracy.	Core
R4,R5	Managers periodically review listings of current employees within their departments and variances are investigated.	Additional
R1	Payroll is periodically reconciled to the General Ledger accounts.	Additional
R2	The payment for the payroll must be reconciled to a system generated report detailing amount and employee prior to payment.	Core
R2	There is a process to ensure an independent review of proposed payroll payments by authorised staff.	Additional
R2	The payment of the payroll is authorised by appropriate staff not involved in the preparation of the payroll.	Core
R2	Employee records to include employment details and/or contract terms and conditions, authorisations for payroll deductions and leave entitlements.	Core
R2	There is a process to ensure employees are made inactive in payroll records upon termination	Core

RISKS	Control	Control Type
R5	All payroll deductions must be approved by the relevant employee.	Core
R3	Relevant staff are required to complete timesheets and/or leave forms, authorise them and have approved by the relevant supervisor.	Core
R2	There is a segregation of duties from those preparing the payroll to those responsible for preparation of source documents (e.g. timesheets, leave requests etc).	Core
R2	Payroll system generates audit reports detailing all payroll changes and there is a process in place to ensure all changes are reviewed and verified against source documents.	Core
R2	There is a process in place to ensure employees are not added to the payroll masterfile, nor details amended or amounts paid without receipt of the appropriate forms which have been authorised by relevant staff.	Core
R5	Access to the payroll deduction listing is restricted to authorised staff.	Core
R6	There is a process in place to ensure termination payments comply with relevant policies, procedures and legislation.	Core
R3	Time recording and attendance exceptions such as TOIL or flexitime are based on relevant policies/agreement are identified, monitored and corrected.	Core
R4	The ability to access, modify or transfer information contained in the payroll master files is restricted to authorised staff.	Core

## CREDIT CARDS

## Risks

- |    |   |
|----|---|
| R1 | Credit Cards are issued to unauthorised employees.        |
| R2 | Credit Cards are used for purchases of a personal nature. |
| R3 | Credit Card limits are set at inappropriate levels.       |

RISKS	Control	Control Type
R1,R3	There is a process in place to ensure there are appropriate approvals prior to the issuing of Credit Cards and limits.	
R1,R2	Credit card holders sign a declaration confirming compliance with Council policy and procedures prior to the Credit Card being released.	
R2	There is a process in place to approve all credit card transactions to ensure compliance with the policies and procedures covering credit card usage.	
R2	Cardholders must check their statement to ensure all transactions are correct and identify any transactions of a personal nature which must be reimbursed to Council.	
R3	There is a process in place to ensure credit card limits and usage is reviewed for operational efficiency.	

## BANKING

## Risks

- |    |   |
|----|---|
| R1 | Banking transactions are either inaccurately recorded or not recorded at all. |
| R2 | Fraud (i.e. misappropriation of funds)  |

RISKS	Control	Control Type
R1,R2	There is a process in place to ensure all cash, blank cheques and/or cheque signing machine are adequately safeguarded.	Core
R1	Access to EFT Banking system is restricted to appropriately designated personnel.	Core
R1,R2	Bank reconciliations are performed on a predetermined basis and are reviewed by an appropriate person. Any identified discrepancies are investigated.	Core
R2	Cash transfers between bank accounts and investment bodies are undertaken by appropriate staff.	Core
R2	There is a process in place to ensure all cash collected is adequately recorded and banked regularly.	Core

## DEBTORS

## Risks

R1	Debtors are either inaccurately recorded or not recorded at all.
R2	Rebates and credit notes to debtors are either inaccurately recorded or not recorded at all
R3	An appropriate provision for doubtful debts is not recorded
R4	Debtors are either not collected on a timely basis or not collected at all
R5	The Debtors master file data does not remain pertinent.

RISKS	Control	Control Type	CSA Importance Weighting
R1, R4	Debtor's reconciliation performed on a regular basis to the General Ledger and reviewed by an independent person.	Core	4
R1	Council maintains a Debt Collection Policy.	Core	5
R2, R3, R4	Management and/or Council review and approve all rebates, credit notes, bad debt write-offs and movements in the provision for doubtful debts, in accordance with delegations of authority and Local Government Act.	Core	5
R3, R4	Management reviews debtors ageing profile on a regular basis and investigates any outstanding items.	Core	4
R5	Access to the debtor's master file is restricted to appropriately designated personnel and is reviewed by management for accuracy and on-going pertinence.	Core	5
R5	Recorded changes to debtor's master file data are compared to authorised source documents or confirmed with customers/ratepayers to ensure that they were input accurately.	Core	4

## RECEIPTING

## Risks

R1	Receipts are either inaccurately recorded or not recorded at all.
R2	Receipts are not deposited at the bank on a timely basis.

RISKS	Control	Control Type
R2	Prior to and during the banking process, cash is stored securely at all times.	Core
R1	Customers are provided with a system generated or pre-numbered (manual) sequential tax compliant receipt detailing payment made.	Core
R1	There is a review process for the authorisation of the reversal of transactions.	Additional
R1	Receipt transactions are reconciled to the daily takings and out-of-balance banking is corrected promptly.	Core
R2	Receipts are deposited regularly at the bank by a person independent from the initial recording of the cash receipts.	Additional

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.4

**Originating Officer:** Mike Carey, Manager Finance Services

**Responsible Director:** Terry Crackett, Director Corporate Services

**Subject:** End of Financial Year Update

**For:** Information

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**SUMMARY**

Council has previously presented a draft End of Financial Year reporting timetable to the Audit Committee on 30 April 2018.

Administration remains confident that all significant preparatory work will be completed in advance of the final audit visit scheduled for the two weeks commencing 10 September 2018.

**RECOMMENDATION**

**The Audit Committee resolves that the report be received and noted.**

---

**1. GOVERNANCE**

➤ **Strategic Management Plan/Council Policy**

Goal 5            Organisational Sustainability  
Strategies       Risk and Responsibility (Legal Compliance)

The Council is committed to open, participative and transparent decision making and administrative processes.

➤ **Legal Implications**

Council is required to prepare audited annual Financial Statements in accordance with the *Local Government Act 1999*, and the Local Government (Financial Management) Regulations 2011. Chapter 8, Part 3, Division 3 – Financial Statements and Division 4 – Audit, Local Government Act 1999 and Part 4 – Financial Statements, Local Government (Financial Management) Regulations 2011.

➤ **Risk Management Implications**

Failure to complete the year end reporting process within the timetable can result in increased financial, compliance and reputational risk.

The completion of the year end reporting and audit processes within the legislative timeframes will assist in mitigating the risk of:

*Poor governance practices occur which lead to a loss of stakeholder (i.e. customer and regulator) confidence and/or legislative breaches.*

Inherent Risk	Residual Risk	Target Risk
Extreme (5C)	Medium (3D)	Medium (3C)

➤ **Financial and Resource Implications**

The end of year financial reporting process ensures the timely production of the Annual General Purpose Financial Reports. These are required for the Annual Report and can impact on Council's ability to secure future grant and loan funding.

➤ **Customer Service and Community/Cultural Implications**

Not applicable.

➤ **Environmental Implications**

Not applicable.

➤ **Community Engagement/Consultation**

Council's audited financial statements are provided to the community in its Annual Report.

## 2. **BACKGROUND**

Council's preparation of the Annual General Purpose Financial Reports on a timely basis is affected by, but not limited to:

- external audit timelines
- resourcing, internal and external
- Infrastructure assets validation

A detailed timetable is prepared to document and streamline the End of Year progress during July and August, and the confirmed final audit visit commencing on 10 September 2018.

### 3. ANALYSIS

The updated timetable (**Appendix 1**) has been prepared on the basis of current available information and management accounting experience during previous years.

It should be noted that since the last End of Year update was presented to the Audit Committee on 30 April 2018, Council has received 2 quarters of the 2018/19 Financial Assistance Grant (FAG) funding in June 2018. This results in Council receiving \$847k of FAG in advance, and therefore will report it as grant revenue in the 2017/18 year. This offsets the 2017/18 FAG Grant of \$771k received in 2016/17.

In addition, as part of the year end process Finance and Engineering met with our external auditors Galpins in June 2018 to discuss key end of year items including:

- Infrastructure Asset Accounting and Revaluation
- Subsidiaries
- Contributed Assets
- Internal Controls Review

The External Auditors were appreciative of the opportunity to discuss key year end issues and were comfortable with the position and direction proposed by Council.

Administration remains confident that all significant preparatory work will be completed in advance of the final audit visit scheduled for early September 2018.

### 4. OPTIONS

The Committee has the following options:

- I. To note the timetable as prepared.
- II. To make additional comments or suggestions for Finance staff to consider prior to finalising the timetable and the external audit visit.

### 5. APPENDIX

- (1) 2017/18 End of Year Financial Reporting Timetable (revised)



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# **Appendix 1**

*2017/18 End of Year Financial Reporting  
Timetable (revised)*

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**ADELAIDE HILLS COUNCIL**  
**2017/18 END OF YEAR FINANCIAL REPORTING TIMETABLE**

<b>Week Commencing/ Specific Date</b>	<b>Description</b>
Mon 7-May	External Audit Interim Visit (9-11 May)
Mon 25-Jun	Statement of Financial Position Date 30/06/2018 Last payrun for 2017/18 FY P/E 22/6/18 paid 28/6/18, EOY Payment Summaries 2-4/7/18, FBT figures to Payroll for inclusion on Payment Summaries, YE cut-off, Council Mtg - Adopt ABP, Budget, Declaration of Rates
Mon 16-Jul	Close June Creditors; Accrue Final Pay(s); Bank Reconciliation; High risk control account reconciliations Stock Take and Petty Cash counts
Mon 23-Jul	Accruals; Commence Capitalisation
Thu 2-Aug	Audit Committee Report preparation for Audit Committee - Timetable Update
Mon 6-Aug	Year end prepayments and grants reconciled Update provisions for remediation & employees Progress Fixed Asset Revaluation, Depreciation and Reconciliation Finalise remaining Statement of Financial Position Reconciliations
Mon 13-Aug	<b>Audit Committee Meeting (13 Aug)</b> Timetable Update
Thu 16-Aug	<b>ELT Report (16 Aug)</b> Discuss EOY Position - Preliminary and Carry Forwards
Thu 16-Aug	Council Report due for 28 August 2018 Meeting
Mon 20-Aug	Review and finalise notes to Statutory Accounts; Update for subsidiary results
Mon 27-Aug	Review reserves accounting (Revaluations and CWMS)
Tue 28-Aug	<b>Council Meeting (28 August)</b> Council Report 2017/18 Preliminary End of Year Results and Carry Forwards Creditors - Taxable Payments Annual Report to ATO
Mon 3-Sep	Analytical review and full year budget comparison of operating accounts
Mon 10-Sep	<b>External audit visit (10-14 Sep)</b> First Draft Statutory Accounts
Fri 14-Sep	Prescribed Day for Finalisation of Annual Financial Statements to Auditors
Thu 27-Sep	Audit Committee Report preparation for Audit Committee - Annual Financial Statements
Mon 8-Oct	<b>Audit Committee Meeting (8 Oct)</b> Draft 2017/18 Annual Financial Statements for adoption
Mon 8-Oct	Annual Report Preparation
Thu 11-Oct	Report preparation for Council - Annual Financial Statements & End of Year Financial Results
Tue 23-Oct	<b>Council Meeting (23 Oct)</b> 2017/18 Annual Financial Statements for adoption for Annual Report inclusion and End of Year Financial Results
Thu 25-Oct	Report preparation for Audit Committee - Annual Report
Mon 5-Nov	<b>Audit Committee Meeting (5 Nov)</b> Draft 2017/18 Annual Report for Council adoption by 27 Nov Annual report issued to Council for consideration after review by Audit Committee Council elections Sat 10th
Mon 12-Nov	Annual Report final design amendments
Thu 15-Nov	Council Report due for Council Meeting 27 November - Annual Report for Adoption & BR1
Tue 27-Nov	<b>Council Meeting (27 Nov)</b> 2017/18 Annual Report for adoption & BR1
Fri 30-Nov	Submit Financial Statements to Minister (by 30 Nov)

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.5

**Originating Officer:** Lachlan Miller, Executive Manager Governance & Performance

**Responsible Director:** Andrew Aitken, Chief Executive Officer

**Subject:** Internal Audit Quarterly Update

**For:** Decision

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**SUMMARY**

This report provides the Audit Committee with an update on progress of internal audits nominated in the (now superseded) Strategic Internal Audit Plan v1.5.

Specifically the final internal audit reports for the following audits are provided for the Committee's information:

- Internal Audit of Planning Assessment Process
- Internal Audit of Customer Service Standard Reporting

**RECOMMENDATION**

**The Audit Committee resolves to:**

1. Receive and note the report.
  2. Note the content of the Internal Audit of Planning Assessment Process Report and the Internal Audit of Customer Service Standard Reporting Report.
- 

**1. GOVERNANCE**

➤ **Strategic Management Plan/Council Policy**

Goal 5	Organisational Sustainability
Strategy 5.7	Governance

Monitoring the implementation of the Strategic Internal Audit Plan and audit assists in meeting legislative and good governance responsibilities and obligations.

➤ **Legal Implications**

Section 125 of the *Local Government Act 1999* (the Act) requires councils to ensure that appropriate policies, practices and procedures of internal controls are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard Council's assets, and to secure (as far as possible) the accuracy and reliability of Council records.

The Internal Audit program is an important tool to provide an objective appraisal of the adequacy on internal controls in managing our risk and supporting the achievement of council objectives.

➤ **Risk Management Implications**

The implementation of the internal audit program will assist in mitigating the risk of:

*Internal control failures occur which lead to greater uncertainty in the achievement of objectives and/or negative outcomes.*

Inherent Risk	Residual Risk	Target Risk
High (4C)	Medium (3C)	Medium (3C)

➤ **Financial and Resource Implications**

The Internal Audit budget for this financial year includes funding to resource the proposed audits and enable them to be outsourced under the oversight of the Executive Manager Governance and Performance. Given the range of demands on this role, and the specialised nature of a number of the audits, it is not possible to undertake audits internally.

➤ **Customer Service and Community/Cultural Implications**

There is a high expectation that Council has appropriate corporate governance processes in place including an effective internal control environment.

➤ **Environmental Implications**

Not applicable

➤ **Engagement/Consultation with Committee, Regional Subsidiary, Advisory Group and Community**

Consultation in the preparation of the current internal audit scopes was as follows:

<i>Council Committees:</i>	Audit Committee for the internal audit project scopes via the Strategic Internal Audit Plan as contained in this report
<i>Advisory Groups:</i>	Not Applicable
<i>Workshops:</i>	Not Applicable
<i>Administration:</i>	David Waters, Director Community & Customer Service Hari Argiro, Coordinator Service Strategy & Innovation Marc Salver, Director Strategy & Development Deryn Atkinson, Manager Development Services
<i>Community:</i>	Not Applicable

**2. BACKGROUND**

Strategic Internal Audit Plan

At its 30 April 2018 meeting, the Committee recommended to Council to adopt the draft Strategic Internal Audit Plan 2018/19 – 2021/22 (SIAP).

The Council subsequently adopted the SIAP v1.0 at its 22 May 2018 meeting. The adopted SIAP is at **Appendix 1**.

**3. ANALYSIS**

Strategic Internal Audit Plan

With the SIAP adopted work will commence on scoping and packaging up the 2018-19 audits for procurement.

With the recent recruitment of the Governance and Risk Coordinator into the Governance & Performance Department, an interim division of responsibilities has been put in place with the Executive Manager coordinating the internal and external audit programs and the Coordinator coordinating the risk management program.

Internal Audits

**Planning Assessment Process**

The Internal Audit of Planning Assessment Processes conducted by Bentleys has been completed and the final report including management responses and agreed actions is contained in **Appendix 2**.

The purpose of this audit was to provide assurance of the planning assessment process to the Council (via Council's s41 Audit Committee) through consideration of:

- Statutory compliance;
- Current best practice;
- Policy and practice review;
- Identification of areas of non-compliance and recommendation of potential remedies; and
- Provide recommendations for system and operational improvements rather than just compliance.

Governance objectives, where relevant, were considered. This included an assessment of whether governance processes were in place, including:

- Defined roles and responsibilities;
- Segregation of duties;
- Appropriate levels of delegated authority;
- Monitoring and reporting of abnormal activity; and
- Records management and documented audit trails.

The internal auditors (Bentleys) have concluded that, utilising the rating scales in Council's Risk Management Framework, the overall control effectiveness within the audited processes is **Marginal** and that there are a number of **Medium** and **Low** residual risks.

Management responses and agreed actions have been provided against each of the key findings. The latter will be monitored and reported through the Committee's Audit Actions Implementation Register.

#### **Customer Service Standard Reporting**

The Internal Audit of Customer Service Standard Reporting conducted by Bentleys has been completed and the final report including management responses and agreed actions is contained in **Appendix 3**.

The purpose of the audit was to review the adequacy and robustness of the Council's Customer Service Standard (CSS) collection and reporting processes through consideration of:

- Statutory compliance;
- Current best practice;
- Policy and practice review;
- Identification of areas of non-compliance and recommendation of potential remedies; and
- Provide recommendations for system and operational improvements rather than just compliance.

Governance objectives, where relevant, were considered. This included an assessment of whether governance processes were in place, including:

- Defined roles and responsibilities;
- Segregation of duties;
- Appropriate levels of delegated authority;
- Monitoring and reporting of abnormal activity; and
- Records management and documented audit trails.

The internal auditors (Bentleys) have concluded that, utilising the rating scales in Council's Risk Management Framework, the overall control effectiveness within the audited processes is **Marginal** and that there are a number of **Medium** and **Low** residual risks.

Management responses and agreed actions have been provided against each of the key findings. The latter will be monitored and reported through the Committee's Audit Actions Implementation Register.

**4. OPTIONS**

The Committee has the following options:

- I. To note the status of the Internal Audit Update report as presented; or
- II. To identify additional actions to be undertaken.

**5. APPENDICES**

- (1) Strategic Internal Audit Plan 2018/19 – 21/22 v1.0
- (2) Internal Audit of Planning Assessment Processes Report
- (3) Internal Audit of Customer Service Standard Reporting Report

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# **Appendix 1**

*Strategic Internal Audit Plan 2018/19 – 21/22 v1.0*

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**Strategic Internal Audit Plan 2018/19 - 20/21**

<b>Audit Engagement</b>	<b>Scope</b>	<b>Strategic/Corporate Risk Linkage</b>	<b>Year 1 2018/19</b>	<b>Year 2 2019/20</b>	<b>Year 3 2020/21</b>	<b>Year 4 2021/22</b>
Recruitment & Retention Practices	Focusing on the role analysis, authorisation, recruitment process, remuneration determination, reward and recognition processes.	SR9a - Failure to manage, improve and develop the human resources available to the Council.	Q1			
Budgetary Management	Focussing on financial planning, control and reporting. Relationship of budget with LTFP, legislative and regulatory compliance.	SR9c - Failure to manage, improve and develop the financial resources available to the Council.	Q2			
Payroll Function	Focussing on the payroll operation, including a review of the processes, systems, activities, controls and risks. The extent to the audit engagement will consider aspects from commencement of employment to termination of individuals, including payment of wages, leave, changes to position security, administration and payroll reporting. Including PIR from 2014 audit.	SR9c - Failure to manage, improve and develop the financial resources available to the Council.	Q3			
Major Projects Review	Focussing on processes, activities associated with the project, including scoping, planning, implementation, monitoring, post project review, risk management, development of maintenance program and operations.	SR2 - Failure to deliver projects, programs and services in accordance with plans (time, budget, quality).	Q4 (AHBTC Divestment)		Q2	Q2
Capital Works Programming & Delivery	Focussing on the planning, scheduling, approval, monitoring, and reporting processes and practices regarding the Capital Works Program. The procurement and contract management processes will be out of scope due to other scheduled audits on these subjects.	SR2 - Failure to deliver projects, programs and services in accordance with plans (time, budget, quality). SR6 - Failure to provide appropriate infrastructure for the community. SR4 - Failure to take measures to protect the community from natural and other hazards.		Q1		
Treasury Management	Focusing on the processes, practices and policies regarding Treasury Management including compliance with legislative obligations.	SR9c - Failure to manage, improve and develop the financial resources available to the Council.		Q2		
Cyber Security	Focussing on the systems, processes and controls associated with securing and protection Council's IC&T network from penetration and data corruption/denial of service from external parties. Including PIR from 2015 audit.	SR9b - Failure to manage, improve and develop the information resources available to the Council.		Q2		
Emergency Management	Focussing on Emergency Management Plans, identification of risks associated with various types of disasters and the controls and processes to mitigate those risks, status of preparedness in the event of an emergency, recovery process and association with the Community and other Emergency Services.	SR4 - Failure to take measures to protect the community from natural and other hazards		Q4		
Business Continuity Plan	Focussing on the review of Business Continuity Plan (Disaster Recovery and Disruption) to key activities of Council including the identification, development, implementation of recovery plans and testing of conditions in the event of a disaster.	SR4 - Failure to take measures to protect the community from natural and other hazards			Q1	
Economic Development Strategy Implementation	Focusing on the strategy development and revisions processes, determination of actions and initiatives, funding of strategy implementation and evaluation of outcomes against strategy objectives.	SR7 - Failure to promote the Council area and provide an attractive climate and locations for the development of business, commerce, industry and tourism.			Q1	
Debt Management	Focusing on the processes, practices and policies regarding Debt Management including compliance with legislative obligations.	SR9c - Failure to manage, improve and develop the financial resources available to the Council.			Q2	
Procurement	Focussing on processes, activities, controls, risk, compliance through stages of the function, including planning, assessment, selection, and contract execution. Including the use of payment methods such as credit cards and petty cash. Including PIR from 2014 & 2015 audits. The contract management processes will be out of scope due to another scheduled audit on this subject.	SR2 - Failure to deliver projects, programs and services in accordance with plans (time, budget, quality). SR9c - Failure to manage, improve and develop the financial resources available to the Council.			Q4	
Training & Development Practices	Focusing of the identification of training and development (T&D) needs, sourcing of T&D options, scheduling and support of activities, assessment of transfer into workplace and evaluation of T&D initiatives. This will include development activities such as coaching & mentoring.	SR9a - Failure to manage, improve and develop the human resources available to the Council.				Q1
Asset Operation	Focussing on Asset operation, processes, activities, controls, risk, service levels, planned work, maintenance programs, monitoring performance, asset registers and reporting. Including PIR from 2016 audit.	SR2 - Failure to deliver projects, programs and services in accordance with plans (time, budget, quality). SR6 - Failure to provide appropriate infrastructure for the community. SR8 - Failure to manage and develop public areas vested in, or occupied by the Council.				Q2
Contract Management	Focussing on the post-procurement processes, activities, controls, risk, compliance through stages of the function, including induction, payment approval, monitoring, superintending, reporting, contractual close and evaluation. The procurement processes will be out of scope due to another scheduled audit on this subject.	SR2 - Failure to deliver projects, programs and services in accordance with plans (time, budget, quality). SR11 - Failure to exercise, perform and discharge the powers, functions and duties under legislation, contracts, leases and policies.				Q4
<b>Number of Audits</b>			4	4	5	4

**Version Control**

<b>Date Adopted</b>	<b>Version Comments</b>	<b>No.</b>
30/04/2018	Initial plan considered by Audit Committee	1.0a
22/05/2018	Adopted by Council	1.0

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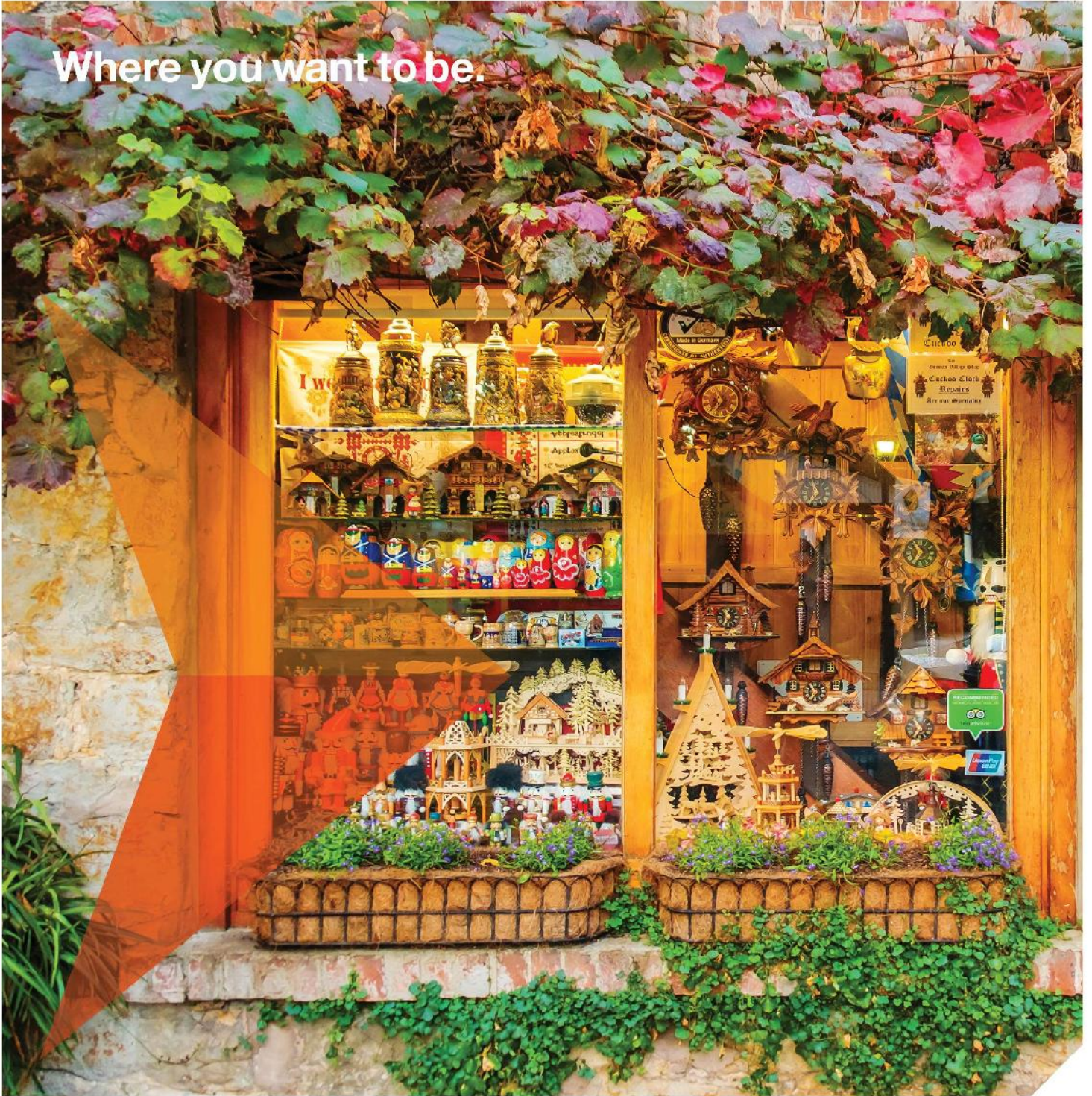
## **Appendix 2**

*Internal Audit of Planning Assessment Processes Report*

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Where you want to be.



August 2018

## Adelaide Hills Council Planning Assessment Process

Internal Audit Report

David Papa, Partner, Assurance & Advisory  
Level 2, 139 Frome St, Adelaide SA 5000  
Telephone +61 8 8372 7900 | Mobile 0412 219 804  
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➤ Advisors

➤ Accountants

➤ Auditors



7 August 2018

Lachlan Miller  
Executive Manager Governance & Performance  
Adelaide Hills Council  
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WOODSIDE SA 5244

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bentleys.com.au

Dear Lachlan,

**Internal Audit Report – Planning Assessment Process**

Please find attached our report on the Planning Assessment Process for the Adelaide Hills Council.

We would like to take this opportunity to thank management and staff for the assistance provided to us during the course of our audit.

If you have any queries, please feel free to contact me on 08 8372 7900 at any time.

Yours sincerely



David Papa  
Partner

Enclosure

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**Inherent Limitations**

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to this review operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by Adelaide Hills Council management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed. The findings expressed in this report have been formed on the above basis.

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## Executive summary

### Background

The Adelaide Hills Council (the Council) has engaged Bentleys SA Pty Ltd to conduct an internal audit project – Planning Assessment Processes in January 2018 in line with the Audit Committees Internal Audit Plan.

In South Australia, an integrated planning and development system has been established through the Development Act 1993 (the Act) and the Development Regulations 2008 (the Regulations). A consequence of this integration is the need for coordination and cooperation within the organisational structures of decision making bodies, the multi-skilling of the professionals working with the legislation (especially in the public sector) and the operation of a single court to deal primarily with appeals and enforcement in the development and environmental protection areas.

To that end, Council's Strategic Risk Profile recognises "failure to plan at the local and regional level for the future development and future requirements of the area" as a strategic risk. Skilled and experienced planning staff and relevant delegations are listed as controls. An efficient development function that ensures compliance with Council's Development Plan and statutory requirements is crucial.

This report outlines findings and recommendations in respect of planning assessment process.

### Audit objectives

The purpose of this audit was to provide assurance of the planning assessment process to the Council (via Council's s41 Audit Committee) through consideration of:

- Statutory compliance;
- Current best practice;
- Policy and practice review;
- Identification of areas of non-compliance and recommendation of potential remedies; and
- Provide recommendations for system and operational improvements rather than just compliance.

Governance objectives, where relevant, were considered. This included an assessment of whether governance processes were in place, including:

- Defined roles and responsibilities;
- Segregation of duties;
- Appropriate levels of delegated authority;
- Monitoring and reporting of abnormal activity; and
- Records management and documented audit trails.

### Audit scope and approach

The audit scope included

- Review of Council's planning assessment process to assess compliance with:
  - The *Development Act 1993* and *Development Regulations 2008*;
  - Council Development Assessment Panel (CDAP) Delegation Policy, Regulated and Significant Tree Policy, Council's Development Plan and Employee Code of Conduct;
  - Relevant customer service standards;
  - Principles of probity in decision making; and

- The extent to which current best practice is demonstrated in council’s planning assessment processes;
- Review of application of development policies in the assessment process by staff;
- Review of CDAP establishment and meeting processes and procedures;
- Review of land management agreements register;
- Assessment of urban trees fund management;
- Assessment of record management practices in relation to applications, including examination of public access to documents;
- Consideration of actual and perceived conflicts of interest;
- Review management and external reporting in respect to development applications;
- Considering delegations, sub-delegations and decision-making structures and review of delegate reports considering the extent to which they fulfil statutory process requirements; and
- Consider whether decisions are made in a timely basis and in accordance with benchmark timeframes and better practice.

The audit excluded building applications.

Our approach involved:

- Reviewing practices in place to identify key controls;
- Determining if the controls are operating effectively;
- Identifying and reporting gaps between current policies and practices and the requirements of the regulation;
- Reviewing of 49 development applications for the period between January and December 2017 to ensure that the planning assessment process has been correctly applied;
- Testing 49 samples of applications of varying complexity for the period between January and December 2017 to provide assurance that there are no endemic or systematic breaches of internal control that may affect the ability to rely on the controls (for details refer to Table 1 below); and
- Identifying and reporting any best practice process gaps to further improve the control environment.

Table 1: Sample Selection of Development Applications for Development Plan Consent in 2017

			No. of Applications Lodged in 2017	No. of Samples Tested
Sample testing covered	Planning Assessment Completed by Council	Development Plan Consent (DPC) issued	670	25
		DPC refused	3	3
		<b>Subtotal</b>	<b>673</b>	<b>28</b>
	Applications under Assessment by Council		<b>215</b>	<b>15</b>
	Fast Track Residential Code Complying Development Assessment	DPC issued	30	5
		DPC under assessment	1	1
<b>Subtotal</b>		<b>31</b>	<b>6</b>	
<b>Total applications covered</b>			<b>919</b>	<b>49</b>
Sample testing excluded	Applications Categories to be determined*		23	-
	DPC withdrawn		18	-
	Building Rules Consent Only**		150	-
	<b>Total applications excluded</b>		<b>191</b>	<b>-</b>
<b>Total applications lodged in 2017</b>			<b>1110</b>	<b>49</b>

\* As minimum assessment was performed on these applications, data analysis was performed in the audit (Finding 3).

\*\* Building applications and the merits of applications do not form part of the scope of this audit.

Our audit reviewed the key processes and documents which drive the Council’ planning assessment process. Refer to Documents Accessed and Consultation (Appendix 3) for detailed information.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

### Process overview

During the audited period from January to December 2017, the Council received 1110 development applications including 150 applications only obtaining Building Rules Consent, which were out of the audit scope. The number of the development applications received was consistent with the previous year.

During the calendar year 2017, the number of monthly applications lodged varied between 66 and 116 of which 56% (out of 670 applications) were granted a Development Plan Consent (DPC) within 60 days (for details, refer to Figure 1 and Figure 2 below). Further, the Council on average made a decision on planning consent within 65 days (equivalent to 9.3 weeks), quicker than “12 weeks of receipt of the application” required in the Council’s Service Standards. However, we identified that 11 out of 49 samples tested (22%) were not compliant with the statutory timeline requirements in the planning assessment process (details refer to Finding 2). This reflects performance of work was efficient but not fully legislatively compliant.

Figure 1: Number of Monthly Applications Lodged in 2017

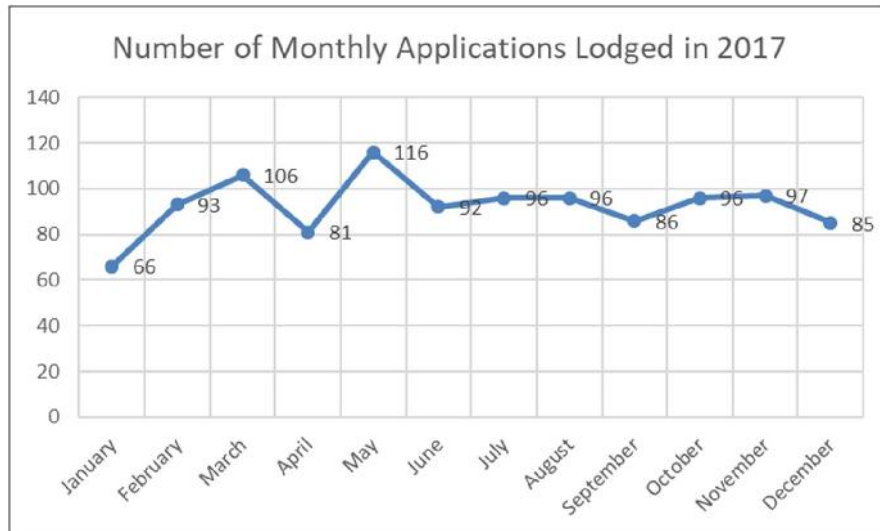
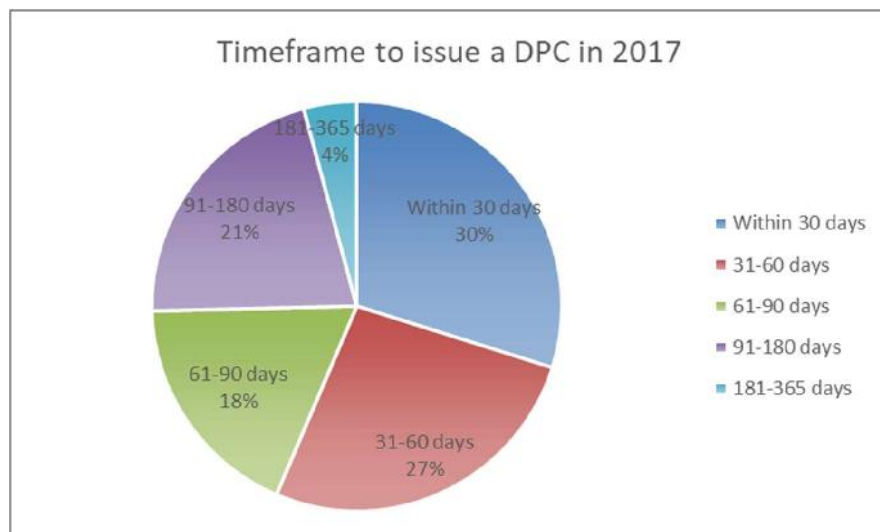


Figure 2: Timeframe to issue a DPC in 2017





The planning assessment process is often complicated due to the unanticipated influences and these matters can cause a delay in processing time and increase workload and expense. Some of the matters to consider are:

- Provision for the disposal of wastewater, sewage and other effluent from each allotment without risk to health;
- Protection and management of native vegetation;
- Conservation of State and local heritage places;
- Bushfire protection and management; and
- Consideration of significant trees, etc.

The Planning Assessment unit has total six statutory planners (5.8 FTEs including the Team Leader Statutory Planning) to conduct the planning assessment process. Normally, a planner is responsible for the following assessment activities:

- Communication with applicants via letter, email or phone call to collect adequate information;
- Communication with applicants and/or representors of Council's decision where relevant;
- Conducting site inspections,
- Completing a Development Application Initial Assessment form;
- Conducting and coordinating internal and external referrals where relevant;
- Conducting public notification for Category 2 or Category 3 developments;
- Writing delegate and Council Assessment Panel (CAP and previously known as Council Development Assessment Panel, CDAP) reports for assessment where relevant;
- Completing a Minor Assessment Sheet where relevant and
- Generating planning decisions on a Decision Notification Form.

The Council had reliance upon part time staff at a senior level in 2017. A part time Consultant Planner back filled a fulltime Senior Planner position from February 2017 to the first week of November 2017 and another part time Consultant Planner back filled the same position from November 2017 to January 2018 whilst some staffing matters and recruitment were worked through. This practice resulted in some inconsistent assessment actions in the absence of policies and directives (details refer to Finding 1).

The planning assessment database of Open Office – Development Applications has been utilised in the Council for approximately 4.5 years and was fully utilised until December 2017, including the function of tracking and monitoring on work progress, performance and process. However, some functionality has yet to be adapted for the South Australian context due to resourcing for both Council and Open Office. All planning application records were retained in electronic version in the TRIM Records Management System until the end of 2017 and hard copy and electronic files were used in parallel.

“To make the Adelaide Hills a place for everyone” (Strategic Plan 2016-2020), the Council should be able to demonstrate the following capabilities as a means of delivering a more efficient, effective and responsive planning assessment service:

- To fulfil the relevant legislative responsibilities;
- To streamline the planning assessment process and meet clearly stated timelines;
- To track and monitor the work progress consistently; and
- To provide resourcing to the planning assessment service.

### Good practices observed

The following good practices were observed during the review:

- Powers and functions were delegated to the CAP (or CDAP) and relevant positions;
- Council decisions in relation to Development Plan Consent are made either by the delegated Planner or CAP (or CDAP); and

- The principal responsible manager, Manager Development Services, demonstrated sufficient legislative and industry knowledge.

### Key findings and observations

A summary of the risk rated findings (using the AHC Risk Management Guide) are provided below:

#### Inherent Risks

Key inherent risks (before controls) include:

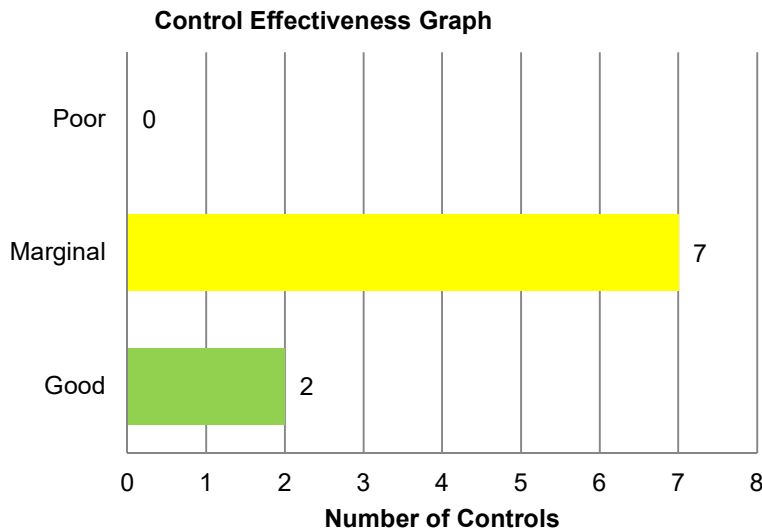
- Non-compliance with legislation;
- Non-compliance with policies and directives;
- Damage to Council reputation;
- Resulting in errors or incorrect assessment if the process is not formalised;
- Prolonged assessment process due to delayed information/documentation processing;
- Misuse of financial assets if no formalised process for using up the specific reserve Urban Tree Fund in place;
- Data breach if irrelevant individual has access to sensitive data;
- Inadequate quality of data to be used in reporting, operations, decision making and planning without quality review; and
- Difficulties in conducting planning assessment if records or information missing.

#### Controls Assessment

The control effectiveness assessment below is an indicator of the current state of the control environment within business operations and its ability to mitigate against the risk exposures.

Key controls were identified during the audit. Refer to Controls Assessment (Appendix 4) for detailed information.

Based on the internal audit work completed, documents inspected and interviews with key stakeholders, it is the view of Bentleys SA that the control environment of Planning Assessment Process is **Marginal**.



(1) Limited to audit scope and based on test results.

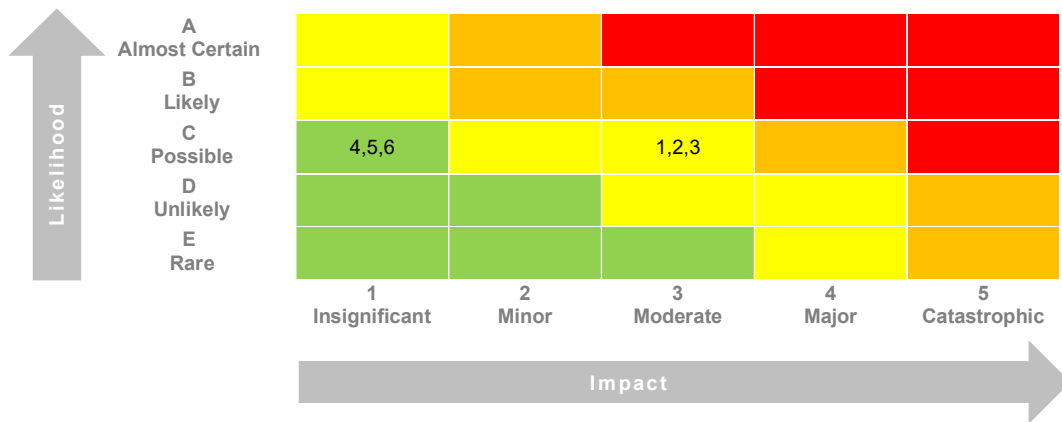
**Residual Risk Assessment**

Provided below is an audit assessment of the residual risk (based on the Council’s risk framework) in respect of the process reviewed, having regard to the issues identified by the audit.

Ref #	Description of Findings	Risk Rating
1	Formalisation of the planning assessment process	Medium
2	Attainment of statutory timelines	Medium
3	Tracking the progress of applications	Medium
4	Urban Tree Fund management	Low
5	Quality review of Open Office	Low
6	Records management	Low
Ref #	Improvement Opportunities	
1	Credit card details security management	n/a
2	Issuing an invoice	n/a
3	Sign off and reference on the CAT 2 and 3 Publication Notification Checklist	n/a
4	Conflict of interest in Job Description of responsible employees	n/a

Refer to Detailed Findings and Agreed Action Plan (Appendix 1), Improvement Opportunities (Appendix 2) for detailed information.

Each key finding is rated based on the impact to the process considered. Refer to Risk Framework (Appendix 6) for detailed information.



**Acknowledgement**

We appreciate the assistance and cooperation received from management and staff of the Adelaide Hills Council in completing this review.

# Appendix 1

## Detailed findings and agreed action plan

Finding 1.	Formalisation of the planning assessment process	Risk Category	A,C,D,E,F
		Impact:	Moderate
		Likelihood:	Possible
		Risk Rating:	Medium
Finding(s)			
<p>The planning assessment process was conducted by the Statutory Planners and where relevant decisions were also made by the Council Assessment Panel (CAP and previously known as Council Development Assessment Panel, CDAP) as the relevant authority. However, the activities of the process were not adequately governed by policies and directives resulting in inconsistency, especially when there were not sufficient Statutory Planners available and/or when workload was heavy. It is noted that during 2017 the Council began a gradual transition from a paper based planning assessment system to an electronic assessment system. During the transition period inconsistencies in practices are not unusual.</p> <p>Although there was a flowchart documenting the previous practices, the flowchart was not updated to reflect the recent changes in 2017 which were still work in progress. In 2017 the database of Open Office – Development Applications was utilised for recording development application information and processing, including the function of tracking and monitoring progress, performance, file loads for individual planners and the determination of applications.</p> <p>It was further advised by management that from January 2018 Council has changed to a fully electronic assessment system with hardcopy files no longer created. Council is currently simplifying the process to develop templates for internal efficiency purposes. The move to electronic assessment system required the Open Office data management system to be amended to better manage workflows and the sequence of development tasks to help eliminate any omission in processing and require action close-out before decisions are issued.</p> <p>During the audit, we assessed 25 out of total 670 Development Applications (DA) with a Development Plan Consent (DPC) issued for the period from January to December 2017 and identified the following inappropriate and/or inconsistent practices:</p> <ul style="list-style-type: none"> <li>• Planning assessment processes sometimes started prior to the receipt of basic lodgement fee. <ul style="list-style-type: none"> <li>– There were nine (9) out of 25 DAs sampled (36%) with the Development Application Initial Assessment (Blue Sheet) completed (the earliest being 23 days) prior to the receipt of basic lodgement fee; and</li> <li>– There were five (5) out of 25 DAs sampled (20%) with the “Lodged Date” (one to three days) earlier than the receipt of basic lodgement fee. The reason could be the gaps between receiving and receipting payment as there was no cashier in the Woodside Office (for details refer to Improvement Opportunity 1).</li> </ul> </li> <li>• There were eight (8) out of 25 DAs sampled (32%) not consistently using the information completion checklist on the second page of the Blue Sheet. Normally, the checklist on the Blue Sheet was used internally and the applicant was requested to provide additional information or documents via mail, email and/or phone call; and</li> <li>• There were four (4) out of 25 DAs sampled (16%) with no Certificate of Title (CT) retained in the current DA file although in the previous DA or court matter file associated to the same address. Further, there was no reference to the relevant file.</li> </ul>			
Risk			
<ul style="list-style-type: none"> <li>• Errors in assessment processing if someone unfamiliar with the process is required to undertake the activities (i.e. new staff);</li> <li>• Waste of resources if applicants do not pay the basic lodgement fee to continue planning assessment; and</li> <li>• Potential dispute if the applicant is dealing with Council for multiple DAs and there is inconsistency in the process.</li> </ul>			

Recommendation	Management Response and Agreed Action Plan																	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Formalise and approve the policies and procedures relating to the current planning assessment process;</li> <li>• Align the policies and procedures with Section 3(d) of the Act “to establish and enforce cost-effective technical requirements”;</li> <li>• Provide training to the relevant responsible officers, including Planners and Administration Officers regarding the requirements of the policies and procedures; and</li> <li>• Review the standard operating procedures such as the flowcharts, templates and checklists regularly (at least annually) and when there are changes.</li> </ul>	<ol style="list-style-type: none"> <li>1. Establish the payment of Development Application fees on-line payment portal to reduce gaps between lodgement and payment.</li> <li>2. Review the process with customer service for credit card payments over the phone for efficiency in receipting process.</li> <li>3. Review and develop new standard operating procedures for electronic development tasks, including lodgement, initial assessment, referrals, public notification, final assessment and CAP report preparation, decision generation and notification private certification, and fee refunds to achieve improved process consistency and efficiency.</li> <li>4. Review standard templates and checklists on an annual basis and as legislation changes occur.</li> <li>5. Develop a new assessment process flowchart for staff and customers.</li> <li>6. Prepare a development application checklist for applicants and undertake training with customer service staff to improve the quality of application information and reduce requests for further information.</li> <li>7. Provide training for all staff as new standard operating procedures are rolled out and when amended. Document through team meeting agendas.</li> </ol>																	
	<table border="1"> <thead> <tr> <th data-bbox="829 1249 1133 1285">Responsible Officer</th> <th data-bbox="1133 1249 1469 1285">Target Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="829 1285 1133 1381">Manager Development Services (Actions 1, 2 and 6)</td> <td data-bbox="1133 1285 1469 1381">Action 1 – 30/06/19 – commenced</td> </tr> <tr> <td data-bbox="829 1381 1133 1444">E-Development (Action 3, 4, 5 &amp; 7)</td> <td data-bbox="1133 1381 1469 1444">Action 2 – 30/6/18 completed 25/06/18</td> </tr> <tr> <td></td> <td data-bbox="1133 1444 1469 1480">Action 3 30/06/19 – in progress</td> </tr> <tr> <td></td> <td data-bbox="1133 1480 1469 1516">Action 4 – 31/06/19</td> </tr> <tr> <td></td> <td data-bbox="1133 1516 1469 1579">Action 5 – 30/12/18 – in progress</td> </tr> <tr> <td></td> <td data-bbox="1133 1579 1469 1642">Action 6 – 31/08/18 – completed 25/07/18</td> </tr> <tr> <td></td> <td data-bbox="1133 1642 1469 1709">Action 7 – 30/06/19 – in progress</td> </tr> </tbody> </table>	Responsible Officer	Target Date	Manager Development Services (Actions 1, 2 and 6)	Action 1 – 30/06/19 – commenced	E-Development (Action 3, 4, 5 & 7)	Action 2 – 30/6/18 completed 25/06/18		Action 3 30/06/19 – in progress		Action 4 – 31/06/19		Action 5 – 30/12/18 – in progress		Action 6 – 31/08/18 – completed 25/07/18		Action 7 – 30/06/19 – in progress	
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<b>Finding 2. Attainment of statutory timelines</b>	<b>Risk Category</b>	<b>C,E,F</b>
	<b>Impact:</b>	<b>Moderate</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Medium</b>
<b>Finding(s)</b>		
<p>There was a lower priority placed on compliance with the legislative timeline requirements in the planning assessment process than achieving good development outcomes. The main reasons for the delay included the substantial workload of all planning staff, the demand to manage numerous files concurrently, the manual tracking and monitoring of the process (Finding 3), and shortcomings in reporting requirements and procedures (Finding 1). The Council appears to have a stronger culture of completing planning assessment thoroughly with no mistakes than pursuing statutory timelines or internal operational milestones.</p> <p><b>Request for additional documents</b></p> <p>Section 18A of the Development Regulations 2008 (the Regulations) requires that “for the purposes of section 39(2b)(d) of the Act, the period of 15 business days from the date of the receipt of the application by the relevant authority is prescribed”. However, sample testing for the audit period from January to December 2017 found that additional documents were requested beyond 15 business days after lodgement, which was not compliant with the Regulations. Details are as follows:</p> <ul style="list-style-type: none"> <li>• Sample testing of 25 DAs with DPC obtained identified five (20%) late requests (being between 29 and 75 calendar days after lodgement);</li> <li>• Sample testing of 15 DAs under assessment found two (13%) late requests (being 48 and 64 calendar days respectively after lodgement); and</li> <li>• Testing of total 3 DAs refused found one (33%) late request (being 126 calendar days after lodgement).</li> </ul> <p>Further, the sample testing of 25 DAs with DPC obtained identified that one (4%) applicant was requested twice for different additional information, not compliant with the Act. Section 39(2b)(c) of the Act requires that “only request the applicant to provide additional documents or information in relation to the application on 1 occasion”.</p> <p><b>Fast Track Residential Code Complying DAs</b></p> <p>Section 42(2) of the Regulations requires that “if a private certifier has been engaged in respect of the development application”, a notice must be given to applicant “within 2 business days of receipt by the council of the certification” and notice of decisions must be given “within 5 business days after the decision is made on the application”. However, non-compliance was identified during the sample testing.</p> <p>We assessed five out of total 30 Fast Track Residential Code Complying DAs (Fast Track DAs) for 2017 and identified the following issues:</p> <ul style="list-style-type: none"> <li>• Two out of five Fast Track DAs sampled (40%) were replied four business days and 92 calendar days after the Council receiving the certification respectively;</li> <li>• One (20%) had no notice to the applicant retained on file or in system; and</li> <li>• Two (40%) had the notice of decision given after 21 and 34 calendar days respectively.</li> </ul>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Non-compliance with the Act and Regulations; and</li> <li>• Reputational damage.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Include the requirements of the statutory timelines into the Council’s policies and procedures;</li> <li>• Review the system Open Office to ensure the requirements of the statutory timelines are built in;</li> <li>• Provide refresher training of the updated procedures and system functions to the relevant responsible officers</li> </ul>	<ol style="list-style-type: none"> <li>1. Review the lodgement and file allocation process with a view to elimination of double handling to speed up file allocation to planners.</li> <li>2. Ensure the statutory timelines are operating in Open Office through enhanced functionality.</li> <li>3. Provide refresher training on updated procedures and system functions to responsible officers as required.</li> </ol>	

<p>and ensure they are capable to meet the statutory timeline requirements; and</p> <ul style="list-style-type: none"> <li>• Set up relevant Key Performance Indicators (KPI) to monitor compliance of the statutory timeline requirements.</li> </ul>	<p>4. Report on requests for information quarterly as a KPI for planners.</p> <p>5. Mentor planners to improve compliance with 15 business day timeline for merit development further information requests.</p> <table border="1"> <thead> <tr> <th data-bbox="792 478 1117 510">Responsible Officer</th> <th data-bbox="1117 478 1469 510">Target Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="792 510 1117 579">Manager Development Services (Action 1)</td> <td data-bbox="1117 510 1469 579">Action 1 -30/4/18– completed 15/3/18</td> </tr> <tr> <td data-bbox="792 579 1117 648">Team Leader Statutory Planning (Action 4 &amp; 5)</td> <td data-bbox="1117 579 1469 648">Action 2 – 28/2/19 – in progress</td> </tr> <tr> <td data-bbox="792 648 1117 718">E-Development Officer (Action 2 &amp; 3)</td> <td data-bbox="1117 648 1469 718">Action 3 – 30/06/19 – in progress</td> </tr> <tr> <td></td> <td data-bbox="1117 718 1469 749">Action 4 – 30/12/18</td> </tr> <tr> <td></td> <td data-bbox="1117 749 1469 812">Action 5 – 30/6/18 – in progress</td> </tr> </tbody> </table>	Responsible Officer	Target Date	Manager Development Services (Action 1)	Action 1 -30/4/18– completed 15/3/18	Team Leader Statutory Planning (Action 4 & 5)	Action 2 – 28/2/19 – in progress	E-Development Officer (Action 2 & 3)	Action 3 – 30/06/19 – in progress		Action 4 – 30/12/18		Action 5 – 30/6/18 – in progress
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	Action 4 – 30/12/18												
	Action 5 – 30/6/18 – in progress												

<b>Finding 3. Tracking the progress of applications</b>	<b>Risk Category</b>	<b>C,E,F</b>
	<b>Impact:</b>	<b>Moderate</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Medium</b>
<b>Finding(s)</b>		
<p>Monitoring and tracking the progress of DA applications was not always in place. When Council requested additional documents via post, email or phone call to assess DA and the clock was stopped until the requested documents were provided. Normally a timeline was indicated in the Council’s request, e.g. 30 days for Category 2 Merit DA and 3 months for Category 3 non-complying DA (pursuant to Section 19(1) of the Act). However, the tracking of timelines was conducted manually and inconsistently, leading to long-term pending DAs.</p> <p>The review of the Development Applications Lodged 2017 Report (totalling 1110 DAs, and details refer to Table 1) extracted out of Open Office at the time of the audit on 25 January 2018 found that</p> <ul style="list-style-type: none"> <li>• Five out of total 23 DAs “To Be Determined” (22%) were still waiting for additional documents, which were overdue at least three months (being over six months since the lodgement) and should be followed up immediately; and</li> <li>• Sample testing of 15 DAs under assessment found that seven (47%) were overdue or delayed up to 110 days, including two waiting for the results of internal referrals.</li> </ul> <p>It should be acknowledged that the “Action” function in Open Office is being used since January 2018 to track the progress of applications.</p>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Prolonged assessment process due to no consistent tracking and monitoring of the process;</li> <li>• Unfinalised planning assessment if a temporary staff leaves and forgets to handover work in progress; and</li> <li>• Reputational damage.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Effectively and consistently apply the “Action” function in Open Office to monitor and track the progress of the applications;</li> <li>• Perform regular (at least quarterly) monitoring and reporting of the status and number of applications in the system, and the time of applications by type to complete assessment or milestones, etc.; and</li> <li>• Continuously investigate the monitoring and reporting functions of the system and utilise them consistently to meet the legislative requirements and improve the efficiency of the process and customer satisfaction.</li> </ul>	<ol style="list-style-type: none"> <li>1. Build in action functionality to development assessment tasks in the review of procedures.</li> <li>2. All planners to be trained in monitoring their overdue action requests.</li> <li>3. Reporting Training to be undertaken by relevant staff.</li> <li>4. Regularly monitor planners’ overdue actions. Report monthly on the number of outstanding information requests older than 6 months initially (reducing to 3 months over time) and to prepare reports for each planner to prioritise follow-up and reduce open file loads.</li> <li>5. Initiate regular meetings between Team Leader Statutory Planner/Senior Planner with statutory planners to discuss progress of applications.</li> </ol>	
	<b>Responsible Officer</b>	<b>Target Date</b>
	Manager Development Services (Action 3)	Action 1 – 30/12/18 – in progress
	Team Leader Statutory Planning (Actions 4 & 5)	Action 2 – 30/12/18 – in progress
	E-Development Officer (Actions 1 & 2)	Action 3 – 30/6/18 – completed 4/6/18
		Action 4 – 30/12/18 – in progress



		Action 5 – 30/12/18 – in progress
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<b>Finding 4. Urban Tree Fund management</b>	<b>Risk Category</b>	<b>C,D</b>
	<b>Impact:</b>	<b>Insignificant</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Low</b>
<b>Finding(s)</b>		
<p>There was no formalised process for using the specific reserve Urban Tree Fund, although there was recognition of the fund existed. The Urban Tree Fund Reserve Account balance at the end of December 2017 is \$7,179.59 including the money received from July to December 2017 being \$350 (2016-17: \$1,021.50). Due to the insufficient balance to be used, the fund had no movement since the establishment in 2012. There was no management plan developed relating to when, how, and what areas to use the fund. This may lead to a risk of non-compliance with legislation and Council's policies.</p> <p>Section 117(4) of the Regulations and the Council's Development Applications Involving Regulated Trees Policy require the fund to be used to "maintain or plant trees, or purchase land to plant such trees in designated areas". However, there was no "designated areas" defined in the current Council's Development Plan.</p> <p>Section 28.5 and 28.6 of the Council's Delegation Policy – Sub-delegations by Development Act 1993 and Regulations (pursuant to Section 50(B) of the Act) authorise the relevant Directors and Managers the power to use or monitor the use of the fund. The Directors and Managers should use the authority to fulfil the relevant statutory and internal operational duties.</p>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Non-compliance with legislation and Council's policies; and</li> <li>• Misuse of financial assets if no formalised process for using up the specific reserves Urban Tree Fund in place.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Formalise the process focusing on developing a management plan to use the specific reserve Urban Tree Fund, including <ul style="list-style-type: none"> <li>– Conditions, restrictions and obligations on the use of the fund Options to use the fund for tree maintenance and/or purchase with consideration given to cost, outcome, and time frame etc.;</li> <li>– Comparison of options and consult relevant utility organisations such as SA Power Network where relevant; and</li> <li>– Approval from delegates;</li> </ul> </li> <li>• Review and update the management plan on an as needs basis;</li> <li>• Implement the management plan and monitor the use of fund; and</li> <li>• Retain records of and report the fund movements and significant activities to the relevant stakeholders/governance bodies.</li> </ul>	<ol style="list-style-type: none"> <li>1. Planning, Open Space and Finance staff to develop an Urban Tree Fund Management Plan for the use of fund contributions paid by development applicants.</li> <li>2. Implement, monitor &amp; review (as required) the Urban Tree Fund Management Plan.</li> <li>3. Retain records and report on the Urban Tree Fund movements as part of the Annual Business Plan.</li> </ol>	
	<b>Responsible Officer</b>	<b>Target Date</b>
	Manager Development Services (Action 1 & 2)	Action 1 – 30/6/19
	Manager Financial Services (Action 2 & 3)	Action 2 – 31/1/20
		Action 3 – 30/8/19

		Risk Category	E,F
<b>Finding 5. Quality review of Open Office</b>		Impact:	Insignificant
		Likelihood:	Possible
		Risk Rating:	Low
	<b>Finding(s)</b>		
<p>There was no regular independent review within Council to oversee the user access and information quality of the planning assessment database Open Office.</p> <p><b>Security Templates</b></p> <p>Open Office had no regular review of the Security Templates, i.e. system user access rights. This may expose the Council to the risks of unauthorised access and data breaches. The Open Office User List (User List) provided at the time of the audit on 31 January 2018 included 126 system users. Review of the User List found:</p> <ul style="list-style-type: none"> <li>• Access rights were inconsistently setup over the past five years and the older users seemed not to have any restrictions;</li> <li>• There were 37 users (29%) with full access rights including the principal responsible, Director Strategy and Development and Manager Development Services; but also included a department and positions who appeared not to require full access rights; and</li> <li>• The User List also included employees who left the Council, such as two Statutory Planners.</li> </ul> <p><b>Data quality</b></p> <p>The quality of data retained in Open Office varies. This may cause difficulties for Council to use accurate and consistent system data in reporting, operations, decision making and planning.</p> <ul style="list-style-type: none"> <li>• Sample testing of 25 DAs with DPC obtained in 2017 found one (4%) had "Planning Consent Date" dated incorrectly as 9 October 2017, which should be 19 July 2017.</li> <li>• Sample testing of 15 DAs under assessment in 2017 identified <ul style="list-style-type: none"> <li>– There were two out of 15 sampled (13%) with other documents on file by mistake; and</li> <li>– There was one out of 15 sampled (7%) with a decision issued but the status in Open Office not updated;</li> </ul> </li> <li>• Sample selection of total 20 Fast Track DAs in 2017 found one Fast Track (5%) was categorised correctly in Open Office but with "Private Certification" selected by mistake.</li> </ul> <p>The above errors were rectified in the audit.</p>			
<b>Risk</b>			
<ul style="list-style-type: none"> <li>• Unauthorised access to the planning assessment database Open Office if there is no regular review of the Security Templates;</li> <li>• Data breaches are more likely due to irrelevant individuals having access to sensitive data; and</li> <li>• Inadequate quality of data impacting reporting, operations, decision making and planning without quality review.</li> </ul>			
<b>Recommendation</b>		<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Enhance controls for the user access in Open Office where possible, such as use expiry dates on user set up;</li> <li>• Review user access on a regular basis using a formal process, at least annually;</li> <li>• Incorporate user deletion as part of termination;</li> <li>• Improve data quality in the system via regular independent review and reporting, at least quarterly; including verifying that the mandatory fields for record</li> </ul>		<ol style="list-style-type: none"> <li>1. Review Open Officer user access on a 6-monthly basis (December and June) and confirm users with full access are required to have this</li> <li>2. Investigate with Open Office user access expiry dates functionality and the ability for resetting these</li> <li>3. Work with Organisational Development to include Open Office user deletion in the employee exit process</li> <li>4. Improve data quality in the Open Office system with 6 monthly internal performance review and reporting on assessment data accuracy to Manager Development</li> </ol>	

<p>entry are accurate and still valid.</p>	<p>Services</p> <p>Note quarterly reviewing and reporting on data quality is considered onerous and is unable to be resourced. Internal reviews are considered adequate to improve data quality.</p> <table border="1"> <thead> <tr> <th data-bbox="794 474 1133 506">Responsible Officer</th> <th data-bbox="1133 474 1464 506">Target Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="794 506 1133 575">E-Development Officer (Action 1, 2 and 4)</td> <td data-bbox="1133 506 1464 537">Action 1 – 30/12/18</td> </tr> <tr> <td data-bbox="794 575 1133 644">Manager Development Services (Action 3)</td> <td data-bbox="1133 537 1464 569">Action 2 – 30/12/18</td> </tr> <tr> <td></td> <td data-bbox="1133 569 1464 600">Action 3 – 30/12/18</td> </tr> <tr> <td></td> <td data-bbox="1133 600 1464 657">Action 4 – 31/1/19</td> </tr> </tbody> </table>	Responsible Officer	Target Date	E-Development Officer (Action 1, 2 and 4)	Action 1 – 30/12/18	Manager Development Services (Action 3)	Action 2 – 30/12/18		Action 3 – 30/12/18		Action 4 – 31/1/19
Responsible Officer	Target Date										
E-Development Officer (Action 1, 2 and 4)	Action 1 – 30/12/18										
Manager Development Services (Action 3)	Action 2 – 30/12/18										
	Action 3 – 30/12/18										
	Action 4 – 31/1/19										

<b>Finding 6. Records management</b>	<b>Risk Category</b>	<b>C,E,F</b>
	<b>Impact:</b>	<b>Insignificant</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Low</b>
<b>Finding(s)</b>		
<p>Sample testing found that not all DA documents were retained in authorised corporate systems; and the Land Management Agreement (LMA) Register did not record all key information. This may cause difficulties in conducting planning assessment and is not compliant with the requirements of Council’s Records &amp; Information Management Policy.</p> <p>The policy requires that “the primary aim of records management is to ensure that information is captured, classified and made available to the right person, in the correct format and medium, at the right time whilst complying with relevant legislation”. Council employees and all relevant individuals have the responsibilities to be aware of and comply with this policy’s requirements.</p> <p>However, sample testing of 25 DAs with DPC obtained in 2017 identified the following:</p> <ul style="list-style-type: none"> <li>• Seven out of 25 DAs sampled (28%) had no evidence of Site Inspection retained either in the TRIM Records Management system or on hardcopy file. Normally, photos taken during the inspection are dated and filed as an evidence;</li> <li>• One out of 25 DAs sampled (4%) had no record of the communication to obtain the additional documents in system or on file but an Amended Plan received on 15 March 2017; and</li> <li>• One out of 25 DAs sampled (4%) had no Minor Assessment Sheet retained in the system or on file.</li> </ul> <p>Further, the LMA Register was retained in the local drive of Finance &amp; Corporate Services Directorate, not in TRIM the “authorised corporate system” defined in the policy. LMAs are however recorded in TRIM on individual development applications. And not all key information was recorded in the LMA Register, such as no dates being recorded although reference to the DA numbers was included. It should be acknowledged that a hardcopy register of all LMAs was kept available for public inspection.</p>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Records or information missing;</li> <li>• Lack of evidence to support Council’s decision on planning assessment if records missing; and</li> <li>• Reputational damage.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Reinforce the record management policy requirements via induction and refresher training; and</li> <li>• Strengthen the records management via performance review and regular independent quality review within Council.</li> </ul>	<p>Record management policy requirements are currently included as part of induction procedures for new staff by record management officers. Note, records management staff do not maintain the Land Management Register, rather this is undertaken by Development staff.</p> <p>Note the performance review of development application records would be covered off in the internal review process action proposed in Finding 5.</p> <ol style="list-style-type: none"> <li>1. Review the Land Management Register for accuracy of information and electronic register access rather than reliance on hardcopy information.</li> <li>2. Review the standard procedure for entering agreements in the Land Management Register annually.</li> <li>3. Undertake induction and refresher training on the Land Management Agreement Register procedure annually or as required.</li> <li>4. Implement annual internal review of the Land</li> </ol>	

	<p>Management Agreement Register.</p> <p>5. Implement a standard procedure for recording site inspections and reasons why a site inspection was unnecessary. Build the system functionality and undertake training of planning officers in the procedure.</p> <table border="1"> <thead> <tr> <th data-bbox="792 506 1130 541">Responsible Officer</th> <th data-bbox="1130 506 1469 541">Target Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="792 541 1130 758">Manager Development Services</td> <td data-bbox="1130 541 1469 758">                     Action 1 – 30/6/19                      Action 2 – 31/1/19                      Action 3 – 30/6/19                      Action 4 – 30/8/19                      Action 5 – 30/12/18 – in progress                 </td> </tr> </tbody> </table>	Responsible Officer	Target Date	Manager Development Services	Action 1 – 30/6/19 Action 2 – 31/1/19 Action 3 – 30/6/19 Action 4 – 30/8/19 Action 5 – 30/12/18 – in progress
Responsible Officer	Target Date				
Manager Development Services	Action 1 – 30/6/19 Action 2 – 31/1/19 Action 3 – 30/6/19 Action 4 – 30/8/19 Action 5 – 30/12/18 – in progress				

## Appendix 2

### Improvement opportunities

1. Credit card details security management		
<b>Observation(s)</b>		
<p>The audit highlighted that improvement could be made to protect the Council’s affiliated payment card account data. There was no EFTPOS machine in the Woodside Office. When applicants sometimes called the Planning Direct Line at 8408 0596 to ask the Planners or anyone else in the Woodside Office to pay the planning assessment fee, the applicants’ credit card numbers and 3-digital CVV were recorded in the Development Application Fee Payments by Credit Card form. The form was put in a normal office folder (in black) in the Reception area waiting for the Customer Services Officers (totalling two) to pick daily. Anyone, including a visitor, could access the folders with the credit card details.</p> <p>The above practices expose the cardholder data to security threats and, therefore, are not compliant with the Requirement 3.2.2 (“Protect stored cardholder data”) and Requirement 9 (“Restrict physical access to cardholder data”) of the Payment Card Industry (PCI) Data Security Standards (DSS).</p> <p>PCI DSS are a set of security standards that outline Australian business requirements for security management of card data — including procedures, policies, networks, software design, architecture, and other security protective measures. Each of PCI SSC’s founding payment brand members (American Express, MasterCard and Visa) currently has their own PCI compliance programs for the protection of their affiliated payment card account data. Council should contact the payment brands directly for information about its compliance programs.</p> <p>We were advised that the Council is working towards online payment of planning assessment. “If wireless technology is used to store, process, or transmit cardholder data (for example, point-of-sale transactions, “line-busting”), or if a wireless local area network (WLAN) is part of, or connected to the cardholder data environment, the PCI DSS requirements and testing procedures for wireless environments apply and must be performed (for example, Requirements 1.2.3, 2.1.1, and 4.1.1).” (“Scope of PCI DSS Requirements” of the PCI DSS version 3.2).</p>		
<b>Opportunity(ies)</b>	<b>Management Response</b>	
<p>We recommend management</p> <ul style="list-style-type: none"> <li>• Contact the Council’s founding payment brand member to obtain their own PCI compliance programs for the protection of their affiliated payment card account data; and</li> <li>• Improve the relevant controls to be compliant with the PCI DSS requirements, including:                             <ul style="list-style-type: none"> <li>– Identify and document the existence of all cardholder data in the environment;</li> <li>– Use the results to select appropriate PCI DSS scope and apply the guidelines;</li> <li>– Implement the PCI DSS activities as part of the Council’s overall security strategy to ensure cardholder data security controls continually implemented; and</li> <li>– Retain documentation for assessor review and/or fore reference for at least one year.</li> </ul> </li> </ul>	Undertake an internal review of PCI compliance and implement relevant controls for best practice.	
		<b>Responsible Officer</b>
	Manager Financial Services	31/8/19 Commenced 4/7/18

**2. Issuing an invoice**

**Observation(s)**

Improvement could be made to apply a system function to have both the Administration Officer and Planner collaborate on the relevant application fees for invoice issuance.

The current practice is when a Development Application (DA) is received in the Stirling Office or Woodside Office, an Administration Officer (totalling four) manually issue an invoice to the applicant. This process was normally performed prior to a Planner (based in the Woodside Office) completing a Development Application Initial Assessment Form. That meant that the Administration Officer normally did not always obtain agreement from a Planner on the appropriate fees. However, the invoice includes a list of 37 items to be selected based on the nature of the DA, which required professional judgement to a certain degree, such as application of "Non Complying Fees". As the Administration Officer does not have the same expertise as the Planner there is an increased risk of mistakes and multiple fee request occasions.

We are aware of a new process being investigated and adopted from January 2018 to address the above inefficiency.

**Opportunity(ies)**

- We recommend management
- Investigate and implement a system function to issue the invoice with the coordination of the Planner and the Administration Officer; and
  - Measure and monitor the outcome of the new process to ensure continuous improvement of the efficiency and effectiveness.

**Management Response**

1. Review the initial assessment process and tax invoice generation for direct data entry of fees into the system through collaboration of planning, building and administration teams.
2. Review Open Office functionality to change from manual invoices to system generated invoices.
3. Review initial assessment process to monitor the efficiency and effectiveness of the new process.

Responsible Officer		Target Date
Manager Development Services (Action 1 & 3)	Officer (Action 2)	Action 1 – 30/4/18 – completed 15/3/18
		Action 2 – 30/4/18 – completed 15/3/18
		Action 3 – 30/4/19



**3. Sign off and reference on the CAT 2 and 3 Publication Notification Checklist**

**Observation(s)**

The CAT 2 and 3 Publication Notification Checklist was prepared by the Planner, and approved by the Team Leader, Planning or the Manager Development Services to indicate preparation of the public notification was ready and the official public notification process could start. However, there was no preparer's sign off on the hard copy and no reference to DA number on the electronic copy during the transition period of 2017.

We are aware of a new process being investigated and adopted from January 2018 to address the above weaknesses.

**Opportunity(ies)**

- We recommend management
- Investigate and implement a system function to enforce both preparer and approver sign off the CAT 2 and 3 Publication Notification Checklist; and
  - Ensure the format of the checklist includes all relevant information to correctly link to the file folder in TRIM.

**Management Response**

1. Review the public notification checklist and procedure for electronic processing and implement the new process.

**Responsible Officer**

E-Development Officer

**Target Date**

30/6/18

Completed 27/6/18

**4. Conflict of interest in Job Description of responsible employees**

**Observation(s)**

The requirements of declaring conflict of interest is clearly defined in the Section 4.5 of the Council Assessment Panel Operating and Meeting Procedures for members, which was compliant with the legislative requirements. However, there was no such requirement addressed in the Job Description of relevant responsible manager and employees of the planning assessment process. Although the Code of Conduct for Council Employees required the disclosure of conflict of interest, the Job Descriptions had no reference to the Code of Conduct leading to the potential neglect of the responsibilities.

**Opportunity(ies)**

We recommend management

- Reinforce the need of disclosure of conflict of interest in the performance review of the responsible manager and employees and/or in the induction of new employees.

**Management Response**

Section 56 (A) of the Development Act only refers to Council Assessment Panel Members and not Council staff who make planning decisions under delegation. Therefore recommendation 1 and 2 are not required.

- Reinforce the need of disclosure of a conflict of interest in performance reviews with staff as good professional and ethical practice, and as a requirement for members of the Planning Institute of Australia.

**Responsible Officer**

**Target Date**

Manager Development Services and Team Leader Statutory Planning

30/12/18

## Appendix 3

### Documents accessed and consultation

Documents provided by Adelaide Hills Council and accessed include:

- Council Development Plan Consolidated dated 28 April 2016
- Council Development Plan Consolidated dated 24 October 2017
- Development applications policy and procedures including delegation policies
- Job Descriptions of the responsible officers
- Planning assessment records from January to December 2017
- Council Assessment Panel (CAP and previously known as Council Development Assessment Panel, CDAP) meeting procedures, meeting agenda, and minutes
- Urban Tree Fund reports
- Land Management Agreement Register
- Open Office Security Template

We would like to extend our appreciation to the following individuals who participated in, and provided information during this internal audit review.

- Deryn Atkinson, Manager Development Services
- Karen Savage, Executive Assistant – Strategy & Development
- Sam Clements, Team Leader Planning Assessment
- Vanessa Nixon, E-Development Officer

## Appendix 4

### Controls assessment

#### Key controls

Key controls identified during the audit include:

No.	Control name	Control effectiveness
1	Documented policies and procedures	Marginal
2	Defined roles and responsibilities	Good
3	Segregation of duties	Marginal
4	Delegated authority	Good
5	Development application	Marginal
6	Land Management Agreements (LMA) register	Marginal
7	Urban Tree Fund management	Marginal
8	Monitoring and reporting	Marginal
9	Records management	Marginal

#### Control assessment table

Control / Mitigating Factor	Description
<b>I – Good</b>	Systems and processes exist to effectively manage the risk and management accountability is assigned. There is a high proportion of systemised controls which are well documented and regular monitoring and review indicates high compliance with the process.
<b>II – Marginal</b>	Systems and processes exist which partially manage the risk. A combination of systemised and manual controls. Some improvement opportunities are possible but have not been achieved.
<b>III – Poor</b>	The system and processes for managing the risk are ineffective, have been subject to major change or are in the process of being implemented and their effectiveness cannot be confirmed.

## Appendix 5

### Risk framework

The following Risk Matrix for risk ratings was developed by Adelaide Hills Council to prioritise findings according to their relative significance depending on their impact to the process.

LIKELIHOOD	CONSEQUENCES				
	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
<b>A</b> Almost Certain	Medium (1A)	High (2A)	Extreme (3A)	Extreme (4A)	Extreme (5A)
<b>B</b> Likely	Medium (1B)	High (2B)	High (3B)	Extreme (4B)	Extreme (5B)
<b>C</b> Possible	Low (1C)	Medium (2C)	Medium (3C)	High (4C)	Extreme (5C)
<b>D</b> Unlikely	Low (1D)	Low (2D)	Medium (3D)	Medium (4D)	High (5D)
<b>E</b> Rare	Low (1E)	Low (2E)	Low (3E)	Medium (4E)	High (5E)

### Measures of corporate risk likelihood

The likelihood of a risk eventuating must be identified in the context of existing controls using the following as a reference:

LIKELIHOOD RATING	DESCRIPTION
A – Almost Certain	<i>Is expected to occur in most circumstances.</i> Greater than 90% chance that the event will occur in situations that the risk is present OR significant past history and considered most likely in the circumstances.
B – Likely	<i>Will probably occur in most circumstances.</i> About 30 - 90% chance that the event will occur in situations that the risk is present OR some past history and considered quite likely in the circumstances.
C – Possible	<i>Might occur at some time.</i> About 10 - 30% chance that the event will occur in situations that the risk is present OR some past history and considered possible in the circumstances.
D – Unlikely	<i>Could occur at some time.</i> About 3 - 10% chance that the event will occur in situations that the risk is present OR limited past history, but possible in some circumstances or occasionally.
E – Rare	<i>May occur in exceptional circumstances.</i> Less than 3% chance that the event will occur in situations where risk is present OR no past history and considered unlikely to occur (if ever).

**Measures of corporate risk consequence or impact**

Where a risk has implications across a number of areas of impact, the highest rating should be used to determine the overall level of risk. However, each identified risk should be assessed from a mitigation/action.

	INTERNAL IMPACT					EXTERNAL IMPACT		
	Corporate Objectives (A)	Staff Welfare & Engagement (B)	Legal and Regulatory (C)	Finance & Assets (D)	Service Continuity (E)	Community, Social & Reputation (F)	Environment (G)	Economic (H)
1. Insignificant	No impact on the ability to achieve corporate objectives.	No injuries. No effect on staff morale.	Innocent procedural breach, evidence of good faith, little impact; Limited/normal insurance claims. Legal action highly unlikely.	Low financial impact - <2% of budget.	No material disruption. Small delays in routine needs/tasks for ½ day.	Isolated complaint without media attention. No impact on community confidence or wellbeing.	No environmental damage.	Minor shortfall relative to current forecasts.
2. Minor	Minor impairment in achieving corporate objectives.	First aid treatment. Minor effect on staff morale.	Breach of regulatory or legal obligations with no punitive actions. Internal breach of policy or procedure requiring internal investigation/ corrective action.	Minor financial impact - 2- < 5% of budget.	Short term temporary suspension. Minor impact in undertaking routine needs or tasks for 1 day or impact on multiple areas within Council.	One-off, localised adverse media event. Loss of confidence by localised community. Minor adverse impact on community wellbeing.	Minor environmental damage. Contamination - on-site release contained. Quick clean-up possible with slight, reversible damage to few species. "Nuisance" category under EPA met.	Individually significant but isolated areas of reduction in economic performance relative to current forecasts.
3. Moderate	Moderate impairment in achieving corporate objectives.	Medical treatment required moderate effect on staff morale.	Breach of regulatory or legal obligations with limited litigation. Internal breach of policy or procedure requiring external investigation.	Moderate financial impact - 5-<15% of budget.	Medium term temporary suspension of capability, moderate impact on stakeholders & routine needs or tasks for up to 1 to 7 days – backlog cleared by additional resources.	Sustained but localised adverse media attention. Limited short-term impact on community confidence. Moderate adverse impact on community wellbeing.	Moderate local impact on or off site requiring long term clean-up. "Material" category under EPA met. Some minor adverse effects to a few species that are short term and reversible.	Significant general reduction in economic performance relative to current forecasts.
4. Major	Major impairment in achieving corporate objectives.	Extensive injuries. Significant impact on staff morale.	Breach of regulatory or legal obligations with potential civil/criminal charges or protracted litigation.	Major financial loss - 15-< 30% of budget.	Prolonged suspension of work (major impact on stakeholders & routine task) for greater than 7 days.	Significant adverse media event. Significant and prolonged loss of community confidence. Major adverse impact on community wellbeing.	Major but reversible environmental damage. Full clean up difficult and expensive. "Serious" category under EPA met. Loss of habitat and migration of animal population, plants unable to survive, pollution requires physical removal.	Regional stagnation such that businesses are unable to thrive and employment does not keep pace with population growth.
5. Catastrophic	Permanent impairment in achieving corporate objectives.	Death related to work incident. Huge effect on staff morale.	Civil/criminal charges or serious litigation.	Huge financial exposure/impact – >30% of budget.	Indeterminate prolonged suspension of work; non Performance.	Significant sustained adverse media attention. Complete loss of community confidence and widespread outrage. Huge adverse impact on community wellbeing.	Catastrophic environmental damage. Full clean-up not possible. "Serious" category under EPA met. Death of animals in large numbers, destruction of flora species, air quality requires evacuation.	Regional decline leading to widespread business failure, loss of employment and hardship

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## **Appendix 3**

*Internal Audit of Customer Service Standard Reporting Report*

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Where you want to be.



May 2018

## Adelaide Hills Council Customer Service Standard Reporting

Internal Audit Report

David Papa, Partner, Assurance & Advisory  
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▶ Advisors    ▶ Accountants    ▶ Auditors



16 May 2018

Lachlan Miller  
Executive Manager Governance & Performance  
Adelaide Hills Council  
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Dear Lachlan

**Internal Audit Report – Customer Service Standard Reporting**

Please find attached our report on the Customer Service Standard Reporting for the Adelaide Hills Council.

We would like to take this opportunity to thank management and staff for the assistance provided to us during the course of our audit.

If you have any queries, please feel free to contact me on 08 8372 7900 at any time.

Yours sincerely



David Papa  
Partner

Enclosure

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 Inherent Limitations

Due to the inherent limitations of any internal control structure, it is possible that fraud, error or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control procedures that have been subject to this review operate, has not been reviewed in its entirety and, therefore, no opinion or view is expressed as to its effectiveness of the greater internal control structure. This review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed on the control procedures are on a sample basis. Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

We believe that the statements made in this report are accurate, but no warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by Adelaide Hills Council management and personnel. We have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. We are under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form unless specifically agreed. The findings expressed in this report have been formed on the above basis.

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## Executive summary

### Background

The Adelaide Hills Council (Council) has engaged Bentleys SA Pty Ltd to conduct an internal audit project – Audit of Customer Service Standard Reporting in April 2018.

In 2014 Council adopted a Customer Service Framework (CSF) which identified three tiers of potential customer service performance indicators. The Tier 1 indicators were adopted as Council's inaugural Customer Service Standards (CSS) for reporting purposes. The Council's Customer Relationship Management (CRM) system together with other legacy systems are used to collect customer service performance data. The CSS suite was revised in 2017 with the new suite contained in the Quarterly Service Standard Report, which was provided to Council from September 2017.

This report outlines findings and recommendations in respect of the CSS reporting.

### Audit objectives

The purpose of the audit was to review the adequacy and robustness of the Council's CSS collection and reporting processes through consideration of:

- Statutory compliance;
- Current best practice;
- Policy and practice review;
- Identification of areas of non-compliance and recommendation of potential remedies; and
- Provide recommendations for system and operational improvements rather than just compliance.

Governance objectives, where relevant, were considered. This included an assessment of whether governance processes were in place, including:

- Defined roles and responsibilities;
- Segregation of duties;
- Appropriate levels of delegated authority;
- Monitoring and reporting of abnormal activity; and
- Records management and documented audit trails.

### Audit scope and approach

The audit scope included

#### **Customer Service Standards**

- Determine whether CSS, including the key performance indicators (KPIs) and targets are clearly defined in CSF or other similar documents;
- Verify if CSS are approved, communicated and available for access; and
- Determine whether CSS are reviewed and updated regularly to ensure adequacy.

#### **Roles and Responsibilities**

- Verify if responsibilities for collecting CSS data and reporting activities have been assigned and if this is documented and communicated;
- Verify if the responsible officers have been provided with adequate training and knowledge of the systems and processes to deliver the requirements; and

- Verify if contingency/backup plans are in place to ensure that tasks continue to be performed if a resource leaves permanently or for an extended period.

#### **Data Quality**

- Verify that the process is formalised and implemented consistently to collect, retain and use the current, relevant and accurate data collected in CRM and legacy systems;
- Review if approval is documented authorising system user account creation and assignment of the specific access rights;
- Check if the system users are still active employees and are performing the role that the access was granted for; and
- Verify whether quality control is implemented via system or regular desktop review.

#### **Monitoring and Reporting**

- Verify if the regular reporting process is formalised and implemented consistently;
- Identify the relevant stakeholders and determine whether they are provided with sufficient information; and
- Determine if a followed up process is implemented where issues are identified.

An evaluation of the customer service standard set up and test of transactions were excluded from the scope.

Our approach involved reviewing the process, procedures, policies and documentation; interviewing key staff; observation, walkthrough and substantive testing, where possible.

Our audit reviewed the key processes and documents which drive the CSS reporting processes. Refer to Documents Accessed and Consultation (Appendix 2) for detailed information.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.

### **Business insight**

Council has taken the initiative to conduct the CSS reporting based on the customer service performance data from CRM together with other legacy systems. Therefore, data quality of customer service performance is important in setting up the foundation to analyse the performance, identify the areas for improvement, comply with legislation, save cost and make management decisions.

Data is only useful if it is sufficiently accurate for its intended purpose. It is only accurate if all data quality dimensions are managed (details refer to Figure 1 next page).

Figure 1: Data Quality Dimensions



The lack of accurate and quality data can lead to loss of revenue, additional cost and potentially cause reputational damage. The cost of poor quality data is enormous (as much as \$3.1 trillion a year for the US economy in 2015 according to the IBM research<sup>1</sup>), but much of that is hidden in:

- Time wasted by users validating and correcting data themselves, often without feeding those corrections back; and
- Resources wasted through acting on decisions built on bad data.

Therefore, it is essential to clean data before it is fed into an analytics tool. Data analytics capabilities enable Council to stand out from its sector and a data-driven customer experience strategy will increase the value of Council's activities. Council will need to decide what they want to use data for, which information is important, how to verify it, which tools should be used to analyse it, as well as learning how to apply the insights garnered in the planning and execution process.

It is impossible to have a truly complete view of performance information through one singular channel. However, technological advances allow Council to collect massive amounts of data (big data) from desktop to spatially available solutions. For example, the use of geospatial technology underlies tools involving big data, artificial intelligence and machine learning, and the Internet of Things, are influencing the risk management, government planning, smart city services, and more.

Data management can be costly due to the use of technology and the readiness of operation. To implement a data quality initiative, Council should be prepared in the following aspects:

- Cross-functional cooperation;
- Open to problems;
- Proper discipline; and
- Investment of financial and human resources.

### Good practices observed

Segregation of duties is in place in terms of that the Coordinator Service Strategy & Innovation does the quarterly reporting and the data quality review, and she does not directly provide any of the customer services tracked in the CSS.

<sup>1</sup> Source: <http://www.ibmbigdatahub.com/infographic/extracting-business-value-4-vs-big-data>

## Key findings and observations

A summary of the risk rated findings (using the AHC Risk Management Guide) are provided below:

### Inherent Risks

Key inherent risks (before controls) include:

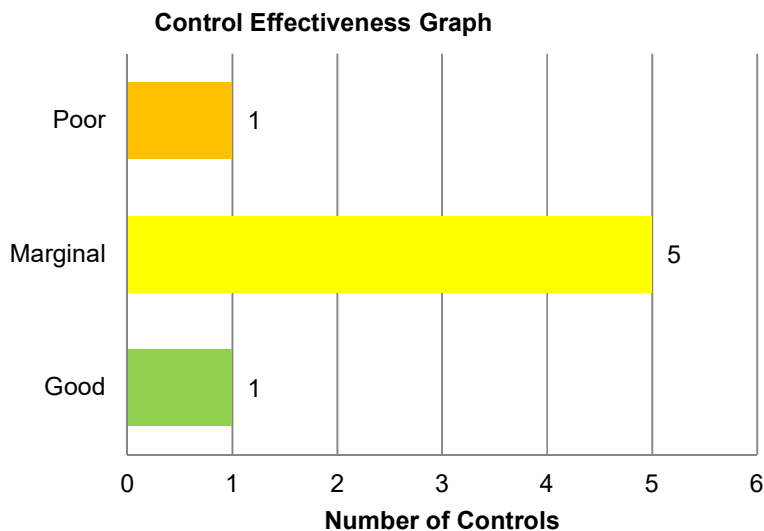
- Integrity of the customer service performance data and information;
- Reflection of the true Council’s customer service performance outcomes;
- Unsatisfactory performance and output delivery;
- Achievement of business objectives; and
- Reputational damage.

### Controls Assessment

The control effectiveness assessment below is an indicator of the current state of the control environment within business operations and its ability to mitigate against the risk exposures.

Key controls were identified during the audit. Refer to Controls Assessment (Appendix 5) for detailed information.

Based on the internal audit work completed, documents inspected and interviews with key stakeholders, it is the view of Bentleys SA that the control environment of CSS Reporting, under the Control Effectiveness rating scale in the AHC Risk Management Guide, is **Marginal**.



(1) Limited to audit scope and based on test results.

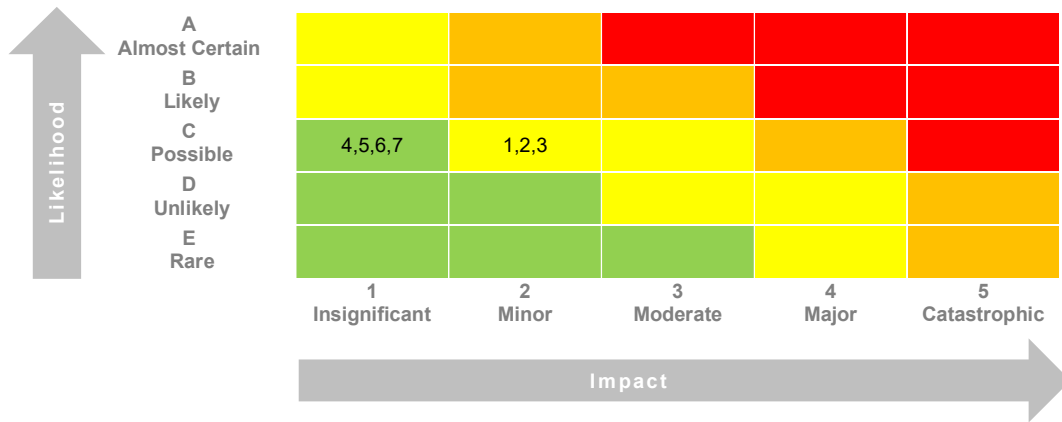
### Residual Risk Assessment

Provided below is an audit assessment of the residual risk (based on the Council’s risk framework) in respect of the process reviewed, having regard to the issues identified by the audit.

Ref #	Description of Findings	Risk Rating
1	Customer Service Standard Report scope	Medium
2	Data quality	Medium
3	Data quality review	Medium
4	Customer Service Framework, policies and procedures	Low
5	Training and communication	Low
6	Roles and responsibilities	Low
7	Data access	Low

Refer to Detailed Findings and Agreed Action Plan (Appendix 1) for detailed information.

Each key finding is rated based on the impact to the process considered. Refer to Risk Framework (Appendix 6) for detailed information.



### Acknowledgement

We appreciate the assistance and cooperation received from management and staff of the Adelaide Hills Council in completing this review.

# Appendix 1

## Detailed findings and agreed action plan

		Risk Category	A,C,F,G
<b>Finding 1.</b>	<b>Customer Services Standard Report scope</b>	Impact:	Minor
		Likelihood:	Possible
		Risk Rating:	Medium
		<b>Finding(s)</b>	
<p>The quarterly Customer Service Standard (CSS) Report scope is not complete to assist achievement of the Council’s governance objectives. The quarterly report does not include the open cases due and overdue; and does not include the real commencement time but use the Customer Relationship Management (CRM) system commencement time (i.e. when it was entered into CRM) for 14 service standard indicators (in total 19) (details refer to Appendix 3).</p> <p>The CSS indicators include legislated response time; however, the assessment of the compliance of the CSS setup was excluded from the scope of this audit.</p> <p><b>Open cases due and overdue</b></p> <p>According to the February 2018 Council Meeting Agenda Item 13.2, the quarterly reporting against the Council’s service standards aims at “assisting in mitigating the risk of ‘Unknown performance against service standards and targets leading to an inability to improve service delivery to the community’”. However, without tracking the open cases due and overdue, it is difficult to monitor and therefore make real-time improvement to the performance.</p> <p>Council initially excluded open cases because they want to avoid duplication in reporting between quarters. Further, it should be acknowledged that the CRM Performance Dashboard is under testing and will be formally rolled out to the Administration to monitor the live performance data.</p> <p><b>CRM tracking time</b></p> <p>The Service Level Agreement (SLA) feature in CRM was introduced in July 2017 to capture whether the Council’s response to customer requests is in line with the service standards. The SLA measures the case start time (“Create on” in CRM) and the end time (“Date and time resolved”/“Date and time investigated” in CRM) when the sections in system are filled in. The real commencement time (“Reported on” in CRM) is not used for the quarterly report. With backdating of the commencement time occurring (Finding 2), the actual performance may not be as good as what is reported.</p>			
<b>Risk</b>			
<ul style="list-style-type: none"> <li>• Inaccurate representation of the true Council’s customer service performance outcomes; and</li> <li>• Reputational damage.</li> </ul>			
<b>Recommendation</b>		<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Ensure the quarterly CSS Report scope is complete to assist achievement of the Council’s governance objectives;</li> <li>• Conduct real-time analysis of CSS versus actual performance, allowing Council to adjust and optimise the</li> </ul>		<p>A request can only be tracked once a case is created in CRM. Most ‘customer’ requests are received by phone (Contact Centre) or in person and a case is created at the time the customer request is made. This is the same for website requests.</p> <p>In relation to the Customer Service Standards reported on, the vast majority of customer cases are created in</p>	



<p>customer service performance outcomes;</p> <ul style="list-style-type: none"> <li>• Consider the “Reported on” information to perform data quality review at this stage; and</li> <li>• Investigate system functions to improve the data analytics and reporting regime.</li> </ul>	<p>the CRM system at the time of customer contact.</p> <p>As such it is not considered a priority to invest further in addressing this point.</p> <p>The CRM Performance Dashboard has since been rolled out and provides Managers and Team Leaders ‘real time’ reporting.</p> <table border="1" data-bbox="829 512 1469 632"> <thead> <tr> <th data-bbox="829 512 1131 548">Responsible Officer</th> <th data-bbox="1131 512 1469 548">Target Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="829 548 1131 632">No further action required</td> <td data-bbox="1131 548 1469 632">Not Applicable</td> </tr> </tbody> </table>	Responsible Officer	Target Date	No further action required	Not Applicable
Responsible Officer	Target Date				
No further action required	Not Applicable				

<b>Finding 2. Data quality</b>	<b>Risk Category</b>	<b>A,C,F,G</b>
	<b>Impact:</b>	<b>Minor</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Medium</b>
<b>Finding(s)</b>		
<p>Of the total 19 service standard indicators reported in the quarterly CSS Report, 14 are tracked in the CRM, one is tracked in the Lync Call System, two are tracked in the Open Office – Development Applications; and two are tracked in the external Gestalt.EastWaste system. However, the data quality in the principal CRM system is not complete or accurate to represent the customer service performance in practice and the data in the external Gestalt.EastWaste system is partially complete and accurate.</p> <p>The following was identified in the Quarter 2 2017-18 CSS Report data extract from CRM.</p> <p><b>CRM SLA inactive</b></p> <p>Five out of 14 service standard indicators (36%) included cases with the CRM validation rule SLA inactive (details refer to Appendix 4). This system problem was discussed with the external Microsoft consultant in February 2018 by the Coordinator Service Strategy &amp; Innovation, but no follow up action was undertaken at the time of the audit on 13 April 2018 due to insufficient funding.</p> <p><b>CRM Data completeness</b></p> <p>Seven out of 14 service standard indicators (50%) included cases with no complete information recorded, such as no “Date and time investigated” and no “Date and time resolved” (details refer to Appendix 4). The potential causes may be:</p> <ul style="list-style-type: none"> <li>• The responsible business areas (Appendix 3) are not fully aware of and/or understand their reporting responsibilities under the new Customer Service Framework (Finding 4 and Finding 5); and</li> <li>• The responsible business areas are not formally advised to improve their time recording in CRM if anything wrong identified in the data quality review process (Finding 3).</li> </ul> <p><b>CRM Data accuracy</b></p> <p>Eight out of 14 service standard indicators (57%) included cases with contradictory information recorded, such as “Date and time investigated/resolved” prior to “Created on” (details refer to Appendix 4). The potential causes may be:</p> <ul style="list-style-type: none"> <li>• The responsible business areas have no portable devices to access to CRM real-time when conducting field work (for example, dog attack) and therefore they backdate the commencement time; and</li> <li>• The responsible business areas record date but do not always record time.</li> </ul>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Inaccurate representation of the true Council’s customer service performance outcomes;</li> <li>• Poor decision making; and</li> <li>• Reputational damage.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Examine the data defects, find out the root cause, and resolve the problems;</li> <li>• Apply the consistent approach to standardise data from different systems;</li> <li>• Create one go to point for all customer matters from multiple systems to feed data to/from the subsidiary system to a central system (such as CRM) to make</li> </ul>	<ul style="list-style-type: none"> <li>• At the time of the audit there were some system problems which indicated some SLA’s were inactive. These issues which have now been rectified.</li> <li>• The Quarterly Standards Report involves collating data from different software systems, and from external providers. It will be difficult to standardise the data from the various systems, as the information collected is generally unique to that standard. No further action is proposed.</li> </ul>	

<p>maintenance and monitoring easier; and</p> <ul style="list-style-type: none"> <li>• Build a data quality firewall by using software to keep data error free and non-redundant.</li> </ul>	<ul style="list-style-type: none"> <li>• It is not considered feasible, or practical to re-create cases into CRM, or give external providers access to the AHC CRM. For example the Contact Centre Software (currently Lync Call System) records over 15,000 calls a quarter. An upgrade of the Contact Centre Software will be overtaken over coming months, which will provide more accurate and comprehensive reporting in the future.</li> <li>• To improve data quality, and in particular when it comes to closing out cases with dates and times, the Microsoft Consultant will be engaged to build a firewall which will not allow the case be closed until certain data (date and time field) is entered into CRM.</li> </ul> <p><b>Proposed Action:</b>  <b>Build a firewall to ensure all data is entered before case can be closed.</b></p> <table border="1"> <thead> <tr> <th data-bbox="797 877 1115 911">Responsible Officer</th> <th data-bbox="1115 877 1469 911">Target Date</th> </tr> </thead> <tbody> <tr> <td data-bbox="797 911 1115 997">Coordinator Service Strategy &amp; Innovation</td> <td data-bbox="1115 911 1469 997">31 August 2018</td> </tr> </tbody> </table>	Responsible Officer	Target Date	Coordinator Service Strategy & Innovation	31 August 2018
Responsible Officer	Target Date				
Coordinator Service Strategy & Innovation	31 August 2018				

<b>Finding 3. Data quality review</b>		<b>Risk Category</b>	<b>A,C,F,G</b>
		<b>Impact:</b>	<b>Minor</b>
		<b>Likelihood:</b>	<b>Possible</b>
		<b>Risk Rating:</b>	<b>Medium</b>
<b>Finding(s)</b>			
<p>The evidence of data quality review undertaken by the Coordinator Service Strategy &amp; Innovation is not well documented. Review of the Quarter 2 2017-18 CSS Report data extract from CRM found the following, which have been confirmed with the Coordinator Service Strategy &amp; Innovation:</p> <ul style="list-style-type: none"> <li>• Checks were performed on the SLA statuses of “Succeeded” or “Noncompliant” except for one service standard indicator (out of 14, equivalent to 7%);</li> <li>• Data completeness check was not fully performed on three service standard indicators (21%);</li> <li>• Data accuracy check was not fully performed on six service standard indicators (43%); and</li> <li>• The original quarterly report included two low performance indicators; while the audit adjusted report includes four low performance indicators and five un-determined indicators due to the unsatisfactory data quality (details refer to Appendix 4).</li> </ul> <p>The data quality review is a critical step to ensure the quarterly report reflects the true customer service performance in practice as the CRM SLA feature is still not stable (Finding 2) and has its limitation. Even if the SLA says the timeframe was not met (“Noncompliant” in CRM) because it was not entered in in time; however, the work was actually done within the standard and should be adjusted as “Succeeded”.</p>			
<b>Risk</b>			
<ul style="list-style-type: none"> <li>• Inaccurate representation of the true Council’s customer service performance outcomes;</li> <li>• Poor decision making; and</li> <li>• Reputational damage.</li> </ul>			
<b>Recommendation</b>		<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Ensure a systematic approach is developed, documented, approved and implemented to assess data independently; <ul style="list-style-type: none"> <li>– Data profiling is used to perform a bottom-up review of the actual data as a way to isolate apparent anomalies that may be real data flaws;</li> <li>– Discovered apparent anomalies are reviewed with relevant business units to see if there are any links between the data errors and any potential business impacts;</li> <li>– Error is reviewed to determine the source of the problem, consider whether it was due to a validation step that was not taken, or determine that there is a new root cause that can lead to defining additional validation rules that can be integrated into the business process flow; and</li> </ul> </li> <li>• Evaluate the information production flow, business process work flow, and training provision etc. and determine how processes can be improved so as to reduce or eliminate the introduction of errors.</li> </ul>		<ul style="list-style-type: none"> <li>• The ‘Draft Service Standard Reporting’ is the document that outlines the process to undertake the quarterly reports. The document needs to be amended to reflect the audit findings and recommendations and document the data quality process currently undertaken by the Coordinator Service Strategy and Innovation.</li> <li>• By undertaking the data quality review, it will identify those areas within Council where there are data anomalies and errors.</li> <li>• A comprehensive review of the data collected by these areas will determine whether the process can be improved with changes in the validation rules/process flows or whether additional training is required.</li> <li>• Engagement and training can then be undertaken with those specific areas to improve processes to reduce and eliminate errors.</li> </ul> <p><b>Proposed Action:</b></p> <ol style="list-style-type: none"> <li><b>1. Update ‘Service Standard Reporting’ document.</b></li> <li><b>2. Conduct Data review on quarterly basis.</b></li> </ol>	

	<b>Investigate and review areas of Council where significant anomalies and errors are identified.</b>	
	<b>3. Respond with process changes or training.</b>	
	<b>Responsible Officer</b>	<b>Target Date</b>
	1. Coordinator Service Strategy & Innovation	30 June 2018
2. Coordinator Service Strategy & Innovation	As needed	
3. Coordinator Service Strategy & Innovation	As needed	

<b>Finding 4.</b>	<b>Customer Service Framework, policies and procedures</b>	<b>Risk Category</b>	<b>A,C</b>
		<b>Impact:</b>	<b>Insignificant</b>
		<b>Likelihood:</b>	<b>Possible</b>
		<b>Risk Rating:</b>	<b>Low</b>
<b>Finding(s)</b>			
<p>Documentation of the Customer Service Framework and the relevant policies and procedures is not formalised to ensure a good control environment.</p> <p><b>Customer Service Framework</b></p> <p>There is no current Customer Service Framework to address the changes introduced in July 2017 although a previous Framework was developed in 2014 and the current standards are available on Council’s website.</p> <p><b>Policies and procedures</b></p> <p>There was no date, defined owner, approval, roles and responsibilities, and version control of the following relevant policies and procedures:</p> <ul style="list-style-type: none"> <li>• CRM Service Standards Procedure;</li> <li>• Draft Service Standard Reporting;</li> <li>• AHC CRM User Guide; and</li> <li>• CRM Best Practice for Creating Cases in CRM.</li> </ul>			
<b>Risk</b>			
<ul style="list-style-type: none"> <li>• Non-achievement of business objectives;</li> <li>• Unsatisfactory performance and output delivery; and</li> <li>• Lack of transparency and consistency of operational practices.</li> </ul>			
<b>Recommendation</b>		<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Update the Customer Service Framework to include the new CSS;</li> <li>• Address the policy documentation issues identified in the audit; and</li> <li>• Provide induction and refresher training to ensure the policy requirements are understood by the Council employees to ensure consistent practice.</li> </ul>		<p><b>Proposed Action:</b></p> <ol style="list-style-type: none"> <li><b>1. Update Customer Service Framework with the new CSS.</b></li> <li><b>2. Update policy and procedure documents;</b> <ul style="list-style-type: none"> <li>- CRM Service Standards Procedure</li> <li>- Draft Service Standard Reporting</li> <li>- AHC CRM User Guide; and</li> <li>- CRM Best Practice for Creating Cases in CRM</li> </ul> </li> <li><b>3. Training will be undertaken as part of response in Finding 5</b></li> </ol>	
		<b>Responsible Officer</b>	<b>Target Date</b>
		1. Coordinator Service Strategy & Innovation	30 June 2018
		2. Coordinator Service Strategy & Innovation	30 June 2018
		3. Coordinator Service Strategy & Innovation	As needed

<b>Finding 5. Training and communication</b>	<b>Risk Category</b>	<b>A</b>
	<b>Impact:</b>	<b>Insignificant</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Low</b>
<b>Finding(s)</b>		
<p>Gaps between the Council’s management and staff awareness of the new customer service standards policies and the relevant requirements were identified as follows, although the policies and the relevant requirements were published on the intranet and the business units were informed via email.</p> <ul style="list-style-type: none"> <li>• The Customer Service Officers at the Contact Centre interviewed were not aware of the existence of the relevant AHC CRM User Guide and the CRM Best Practice for Creating Cases in CRM;</li> <li>• The Team Leader Regulatory Services interviewed was not aware of the existence of the relevant CRM Service Standards Procedure and advised that his team do not record time although record date in CRM; and</li> <li>• The Manager Development Services interviewed was not aware of the change from 20 business days to 28 days (published on the Council’s website since July 2018).</li> </ul> <p>Reasons to cause the gaps could be</p> <ul style="list-style-type: none"> <li>• Only CRM users have been informed/provided training about the new CSS; and</li> <li>• There was no two-way effective communication.</li> </ul>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Unsatisfactory performance and output delivery; and</li> <li>• Non-achievement of business objectives.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Provide a new CSS training across the Council and keep an audit trail;</li> <li>• Test the awareness of CSS after the training; and</li> <li>• Focus on providing training to the business areas with the low customer service performance outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>• Organisation wide Training was undertaken to advise staff of the new Customer Service Framework in 2014/15. Further training was undertaken in August/September 2017 with relevant staff when the new Service Standards were introduced. In addition, all new staff are provided an overview of the Customer Service Standards and CRM as part of their induction. Further organisation-wide training is not currently proposed.</li> <li>• Quarterly and Monthly CRM Service Standard Reports will however identify low customer service performance outcomes, and these will be used to target functional areas for additional training on both the CRM and/or the Service Standards.</li> </ul> <p><b>Proposed Action:</b>  <b>Training as identified and as needed</b>  <b>Quarterly training targeted at functional areas with high errors and anomalies.</b></p>	
	<b>Responsible Officer</b>	<b>Target Date</b>
	Coordinator Service Strategy & Innovation	Quarterly targeted training

<b>Finding 6. Roles and responsibilities</b>	<b>Risk Category</b>	A,F
	<b>Impact:</b>	Insignificant
	<b>Likelihood:</b>	Possible
	<b>Risk Rating:</b>	Low
<b>Finding(s)</b>		
<p>The principal responsible officer of the quarterly CSS reporting – the Coordinator Service Strategy &amp; Innovation – is on maternity leave from Friday 20 April 2018. Although her replacement will start from Tuesday 17 April 2018, there is still a risk of capability to perform the quarterly reporting, especially with such a short handover time.</p> <p>Further, the relevant data reporting responsibilities are not documented and communicated with the managers and team leaders of the business areas. Without formal policy requirement and appropriate engagement, the data quality especially data input is not well managed by the relevant business areas.</p>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Disruption to perform the quarterly CSS reporting; and</li> <li>• Unsatisfactory performance and output delivery.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Prioritise resources to ensure smooth transition of the reporting responsibility;</li> <li>• Build up a backup capacity in the future to ensure no interruption of the process; and</li> <li>• Identify, document and communicate the relevant data reporting responsibilities with the managers and team leaders of the business areas to engage stakeholders in the process.</li> </ul>	<ul style="list-style-type: none"> <li>• Quarter 3 Reporting was undertaken by the new staff member, no issues were identified.</li> <li>• Engaging with relevant Managers and Team Leaders will be undertaken as part of the response in Finding 5</li> </ul> <p><b>Proposed Action:</b>  <b>Train the 'Corporate Planning and Performance Coordinator' to undertake the Quarterly CSS reporting as a back-up.</b></p>	
	<b>Responsible Officer</b>	<b>Target Date</b>
	Coordinator Service Strategy & Innovation	30 November 2018



<b>Finding 7. Data access</b>	<b>Risk Category</b>	<b>D,F</b>
	<b>Impact:</b>	<b>Insignificant</b>
	<b>Likelihood:</b>	<b>Possible</b>
	<b>Risk Rating:</b>	<b>Low</b>
<b>Finding(s)</b>		
<p>The quarterly CSS Report data extract from CRM and other systems is saved in Sharepoint. Review of the CRM and the Sharepoint system access found that the previous employees still have access to both systems. Although their access to the Council's networks were removed, there is a potential security risk of the "ghost user" account hijacked by an external hacker.</p>		
<b>Risk</b>		
<ul style="list-style-type: none"> <li>• Unauthorised access of data and programs, fraud, or the shutdown of computer services; and</li> <li>• Integrity of the customer service performance data and information.</li> </ul>		
<b>Recommendation</b>	<b>Management Response and Agreed Action Plan</b>	
<p>We recommend management:</p> <ul style="list-style-type: none"> <li>• Ensure mechanism is in place to authorise and cancel the system access;</li> <li>• Ensure the system access is consistent with the employee's responsibilities; and</li> <li>• Deactivate the employees' system access in a timely manner when they have left the Council.</li> </ul>	<ul style="list-style-type: none"> <li>• Process in place where IT department are advised of staff exits. Access is removed upon receipt of this information and leaving staff member no longer has access to SharePoint or CRM. Accounts also have a lockout policy when there are 3 attempts to enter the password.</li> <li>• New SharePoint environment will only enable new users to be added via 'active directory' groups, and no longer separately to the different SharePoint pages. This will mean removing access will be undertaken in one single easy step</li> </ul>	
	<b>Responsible Officer</b>	<b>Target Date</b>
	No further action required	Not applicable

## Appendix 2

### Documents accessed and consultation

Documents provided by Adelaide Hills Council and accessed include:

- Customer Service Framework
- Quarterly Customer Service Standard Reports
- December 2017 report data extract from CRM and other legacy systems
- Announcement on new standards
- Emails to managers regarding their standards
- CRM Service Standards Procedure
- Draft Service Standard Reporting
- AHC CRM User Guide
- CRM Best Practice for Creating Cases in CRM
- Communication with ELT regarding Draft Q2 Service Standard Report
- System access

We would like to extend our appreciation to the following individuals who participated in, and provided information during this internal audit review.

- Lachlan Miller, Executive Manager Governance & Performance
- David Waters, Director Community & Customer Service
- Jess Charlton, Coordinator Service Strategy & Innovation
- Colleen Hampton, Customer Service Officer, Library and Customer Service
- Dennis Rainsford, Team Leader Regulatory Services, Compliance
- Tom Portas, Systems Analyst
- Mike O'Donnell, ICT Support Officer
- Deryn Atkinson, Manager Development Services

## Appendix 3

### Mapping of new Customer Service Standards adopted from July 2017

#	New Customer Service Standards adopted from July 2017		Quarterly Reporting from September 2017		Customer service performance database		Responsible areas to provide services	
	Council's Website		Customer Standards	Categories	Systems	Administrator	Busines Unit	Division
	Customer Request	Service Standard						
1	Answering correspondence	We will respond to emails and letters within 7 days of receipt	n/a	General Customer Standards				
2	Answering incoming phone calls	We will answer 75% of calls to our contact centre within 30 seconds	Answering incoming phone calls		Lync Call System	System Analyst, Corporate Services	Libraries & Customer Service	Community & Customer Service
3	Requests made via our website	We will acknowledge requests made via our website within 1 day	n/a					
4	Updating customer details	We will update your contact details within 5 days	Updating customer details		CRM	Coordinator Service Strategy & Innovation	Libraries & Customer Service	Community & Customer Service
5	New Event Applications	We will acknowledge receipt of new applications within 5 days	New Event Applications	Service Specific Standards - Time Based Indicators	CRM	Coordinator Service Strategy & Innovation	Communications & Events	Community & Customer Service
6	Illegal Burning Complaints	We will investigate reported illegal burning within 24 hours	Illegal Burning Complaints		CRM	Coordinator Service Strategy & Innovation	Waste, Health & Regulatory	Strategy & Development
7	Health Complaints	We will investigate and respond to reported food complaints within 24 hours	Health Complaints		CRM	Coordinator Service Strategy & Innovation	Waste, Health & Regulatory	Strategy & Development
8	Illegally Dumped Rubbish	We will remove illegally dumped rubbish within 3 days	Illegally Dumped Rubbish		CRM	Coordinator Service Strategy & Innovation	Civil Services	Engineering & Assets
9	Library Services	We will respond to requests to purchase materials within 10 days	Library Services		CRM	Coordinator Service Strategy & Innovation	Libraries & Customer Service	Community & Customer Service
10	Dog Attacks	We will respond to reported dog attacks within 24 hours	Dog Attacks		CRM	Coordinator Service Strategy & Innovation	Waste, Health & Regulatory	Strategy & Development
11	Wasps	We will investigate and action reported European Wasp nests within 7 days	Wasps		CRM	Coordinator Service Strategy & Innovation	Waste, Health & Regulatory	Strategy & Development
12	Development Applications	We will, on average, make a decision on planning consent within 12 weeks of receipt of the application	Development Applications		Open Office – Development Applications	Team Leader Statutory Planning, Strategy and Development	Development & Compliance	Strategy & Development
13	Missed Bins	We will collect missed domestic bins within 2 days	Missed Bins		Gestalt.EastWaste system (external)	Customer Service Officer, EastWaste	Waste, Health & Regulatory	Strategy & Development
14	Request for bin repair or replacement	We will action requests for bin repair or replacement within 7 days	Request for bin repair or replacement		Gestalt.EastWaste system (external)	Customer Service Officer, EastWaste	Waste, Health & Regulatory	Strategy & Development
15	Footpath Repairs – Hazardous	We will respond and make safe hazardous footpath issues within 24 hours	Footpath Repairs – Hazardous	CRM	Coordinator Service Strategy & Innovation	Civil Services	Engineering & Assets	
16	Road Repairs – Hazardous	We will respond and make safe hazardous road and pothole issues within 24 hours	Road Repairs – Hazardous	CRM	Coordinator Service Strategy & Innovation	Civil Services	Engineering & Assets	
17	Stormwater Repairs – Hazardous	We will respond and make safe hazardous stormwater and flooding issues within 24 hours	Stormwater Repairs – Hazardous	CRM	Coordinator Service Strategy & Innovation	Civil Services	Engineering & Assets	
18	Trees – Hazardous	We will respond and make safe hazardous tree issues within 24 hours	Trees – Hazardous	CRM	Coordinator Service Strategy & Innovation	Open Space	Engineering & Assets	
19	Development Applications	We will approve fast track Development Applications within 28 days	Development Applications	Service Specific Standards - Other Indicators	Open Office – Development Applications	Team Leader Statutory Planning, Strategy and Development	Development & Compliance	Strategy & Development
20	Footpath Repairs – Other	We will repair other footpath issues in accordance with our general maintenance program	Low Risk Infrastructure Requests - Average Time to Resolve		CRM	Coordinator Service Strategy & Innovation	Civil Services; and Open Space	Community & Customer Service
21	Road Repairs – Other	We will repair other road and pothole issues in accordance with our general maintenance program			Low Risk Infrastructure Requests - Number of New Requests	CRM	Coordinator Service Strategy & Innovation	Civil Services; and Open Space
22	Stormwater Repairs – Other	We will resolve other stormwater issues in accordance with our general maintenance program	CRM			Coordinator Service Strategy & Innovation	Civil Services; and Open Space	Community & Customer Service
23	Trees – Other	We will resolve other tree issues in accordance with our general maintenance program	Overall Volume of Requests					

## Appendix 4

### Quarter 2 2017-18 Customer Service Standard Report data quality assessment

Data Spreadsheet October-December 2017							Result (audited)	Target met (audited)	Data Quality			Quality Assurance Check Points		
Categories	Customer Standards	System	Volume	Target	Result (unaudited)	Target met (unaudited)			Validation Rules SLA active	Completion	Accuracy	SLA active	Completion	Accuracy
General Customer Standards	Answering incoming phone calls	Lync	15 001	75%	76%	Yes	76%	Yes	n/a	√	√	n/a	√	√
	Updating customer details	CRM	102	80%	87%	Yes	87%	Yes	P	P	P	√	√	√
Service Specific Standards - Time Based Indicators	New Event Applications	CRM	26	80%	85%	Yes	62%	No	√	√	P	√	√	P
	Illegal Burning Complaints	CRM	15	80%	87%	Yes	87%	Yes	x	x	P	√	√	√
	Health Complaints	CRM	2	80%	100%	Yes	50%	No	√	√	x	√	√	x
	Illegally Dumped Rubbish	CRM	50	80%	58%	No	58%	No	n/a	√	√	n/a	√	√
	Library Services	CRM	32	80%	97%	Yes	Data missing, cannot verify		√	x	x	√	x	x
	Dog Attacks	CRM	5	80%	100%	Yes	Data missing, cannot verify		x	x	x	x	x	x
	Wasps	CRM	12	80%	100%	Yes	Data missing, cannot verify		P	P	x	√	P	x
	Development Applications	Open Office – Development Applications	9	80%	89%	Yes	89%	Yes	n/a	√	√	n/a	√	√
	Missed Bins	Gestalt.EastWaste system (external)	78	80%	94%	Yes	94%	Yes	n/a	P	√	n/a	√	√
	Request for bin repair or replacement	Gestalt.EastWaste system (external)	691	80%	99%	Yes	Data missing, cannot verify		n/a	P	√	n/a	P	P
	Footpath Repairs – Hazardous	CRM	0	80%	no incidents	n/a								
	Road Repairs – Hazardous	CRM	0	80%	no incidents	n/a								
	Stormwater Repairs – Hazardous	CRM	1	80%	0%	No	0%	No	√	x	√	√	√	√
Trees – Hazardous	CRM	1	80%	100%	Yes	100%	Yes	x	x	√	√	√	√	
Service Specific Standards - Other Indicators	Development Applications - Planning Consent	Open Office – Development Applications	202	12 weeks	16.2 weeks	Yes	16.2 weeks	Yes	n/a	√	√	n/a	√	√
	Low Risk Infrastructure Requests - Average Time to Resolve	CRM	755	n/a	122 days	n/a	Data inaccurate, cannot verify		n/a	√	P	n/a	√	P
	Low Risk Infrastructure Requests - Number of New Requests	CRM	709	n/a	709	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Legend:   
 √ Effective control   
 P Control partially effective - under 50% cases noncompliant   
 x Ineffective control - over 50% cases noncompliant

## Appendix 5

### Controls assessment

#### Key controls

Key controls identified during the audit include:

No.	Control name	Control effectiveness
1	Documented policies and procedures	Marginal
2	Defined roles and responsibilities	Marginal
3	Segregation of duties	Good
4	Customer Service Standards	Marginal
5	Data Quality	Poor
6	Monitoring and Reporting	Marginal
7	Records management	Marginal

#### Control assessment table

Control / Mitigating Factor	Description
<b>I – Good</b>	Systems and processes exist to effectively manage the risk and management accountability is assigned. There is a high proportion of systemised controls which are well documented and regular monitoring and review indicates high compliance with the process.
<b>II – Marginal</b>	Systems and processes exist which partially manage the risk. A combination of systemised and manual controls. Some improvement opportunities are possible but have not been achieved.
<b>III – Poor</b>	The system and processes for managing the risk are ineffective, have been subject to major change or are in the process of being implemented and their effectiveness cannot be confirmed.

## Appendix 6

### Risk framework

The following Risk Matrix for risk ratings was developed by Adelaide Hills Council to prioritise findings according to their relative significance depending on their impact to the process.

LIKELIHOOD	CONSEQUENCES				
	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
<b>A</b> Almost Certain	Medium (1A)	High (2A)	Extreme (3A)	Extreme (4A)	Extreme (5A)
<b>B</b> Likely	Medium (1B)	High (2B)	High (3B)	Extreme (4B)	Extreme (5B)
<b>C</b> Possible	Low (1C)	Medium (2C)	Medium (3C)	High (4C)	Extreme (5C)
<b>D</b> Unlikely	Low (1D)	Low (2D)	Medium (3D)	Medium (4D)	High (5D)
<b>E</b> Rare	Low (1E)	Low (2E)	Low (3E)	Medium (4E)	High (5E)

### Measures of corporate risk likelihood

The likelihood of a risk eventuating must be identified in the context of existing controls using the following as a reference:

LIKELIHOOD RATING	DESCRIPTION
A – Almost Certain	<i>Is expected to occur in most circumstances.</i> Greater than 90% chance that the event will occur in situations that the risk is present OR significant past history and considered most likely in the circumstances.
B – Likely	<i>Will probably occur in most circumstances.</i> About 30 - 90% chance that the event will occur in situations that the risk is present OR some past history and considered quite likely in the circumstances.
C – Possible	<i>Might occur at some time.</i> About 10 - 30% chance that the event will occur in situations that the risk is present OR some past history and considered possible in the circumstances.
D – Unlikely	<i>Could occur at some time.</i> About 3 - 10% chance that the event will occur in situations that the risk is present OR limited past history, but possible in some circumstances or occasionally.
E – Rare	<i>May occur in exceptional circumstances.</i> Less than 3% chance that the event will occur in situations where risk is present OR no past history and considered unlikely to occur (if ever).

**Measures of corporate risk consequence or impact**

Where a risk has implications across a number of areas of impact, the highest rating should be used to determine the overall level of risk. However, each identified risk should be assessed from a mitigation/action.

	INTERNAL IMPACT					EXTERNAL IMPACT		
	Corporate Objectives (A)	Staff Welfare & Engagement (B)	Legal and Regulatory (C)	Finance & Assets (D)	Service Continuity (E)	Community, Social & Reputation (F)	Environment (G)	Economic (H)
1. Insignificant	No impact on the ability to achieve corporate objectives.	No injuries. No effect on staff morale.	Innocent procedural breach, evidence of good faith, little impact; Limited/normal insurance claims. Legal action highly unlikely.	Low financial impact - <2% of budget.	No material disruption. Small delays in routine needs/tasks for ½ day.	Isolated complaint without media attention. No impact on community confidence or wellbeing.	No environmental damage.	Minor shortfall relative to current forecasts.
2. Minor	Minor impairment in achieving corporate objectives.	First aid treatment. Minor effect on staff morale.	Breach of regulatory or legal obligations with no punitive actions. Internal breach of policy or procedure requiring internal investigation/ corrective action.	Minor financial impact - 2- < 5% of budget.	Short term temporary suspension. Minor impact in undertaking routine needs or tasks for 1 day or impact on multiple areas within Council.	One-off, localised adverse media event. Loss of confidence by localised community. Minor adverse impact on community wellbeing.	Minor environmental damage. Contamination - on-site release contained. Quick clean-up possible with slight, reversible damage to few species. "Nuisance" category under EPA met.	Individually significant but isolated areas of reduction in economic performance relative to current forecasts.
3. Moderate	Moderate impairment in achieving corporate objectives.	Medical treatment required moderate effect on staff morale.	Breach of regulatory or legal obligations with limited litigation. Internal breach of policy or procedure requiring external investigation.	Moderate financial impact - 5-<15% of budget.	Medium term temporary suspension of capability, moderate impact on stakeholders & routine needs or tasks for up to 1 to 7 days – backlog cleared by additional resources.	Sustained but localised adverse media attention. Limited short-term impact on community confidence. Moderate adverse impact on community wellbeing.	Moderate local impact on or off site requiring long term clean-up. "Material" category under EPA met. Some minor adverse effects to a few species that are short term and reversible.	Significant general reduction in economic performance relative to current forecasts.
4. Major	Major impairment in achieving corporate objectives.	Extensive injuries. Significant impact on staff morale.	Breach of regulatory or legal obligations with potential civil/criminal charges or protracted litigation.	Major financial loss - 15-< 30% of budget.	Prolonged suspension of work (major impact on stakeholders & routine task) for greater than 7 days.	Significant adverse media event. Significant and prolonged loss of community confidence. Major adverse impact on community wellbeing.	Major but reversible environmental damage. Full clean up difficult and expensive. "Serious" category under EPA met. Loss of habitat and migration of animal population, plants unable to survive, pollution requires physical removal.	Regional stagnation such that businesses are unable to thrive and employment does not keep pace with population growth.
5. Catastrophic	Permanent impairment in achieving corporate objectives.	Death related to work incident. Huge effect on staff morale.	Civil/criminal charges or serious litigation.	Huge financial exposure/impact – >30% of budget.	Indeterminate prolonged suspension of work; non Performance.	Significant sustained adverse media attention. Complete loss of community confidence and widespread outrage. Huge adverse impact on community wellbeing.	Catastrophic environmental damage. Full clean-up not possible. "Serious" category under EPA met. Death of animals in large numbers, destruction of flora species, air quality requires evacuation.	Regional decline leading to widespread business failure, loss of employment and hardship

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.6

**Originating Officer:** Lachlan Miller, Executive Manager Governance & Performance

**Responsible Director:** Andrew Aitken, Chief Executive Officer

**Subject:** Audit Actions Implementation

**For:** Information

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**SUMMARY**

The implementation status of actions arising from previous Internal and External Audits is provided in *Appendices 1-6*.

**RECOMMENDATION**

**The Audit Committee resolves:**

1. To receive and note the report.
  2. To note the implementation status of Internal and External Audit actions.
- 

**1. GOVERNANCE**

➤ **Strategic Management Plan/Council Policy**

Goal 5	Organisational Sustainability
Strategy 5.5	Risk & Responsibility
Strategy 5.7	Governance

Monitoring the implementation of internal and external audit actions facilitates the effective management of risk exposures and improves the overall governance environment.

➤ **Legal Implications**

Accounts, Financial Statement and Audit, *Local Government Act 1999*

Section 125 of the *Local Government Act 1999* (the Act) requires councils to ensure that appropriate policies, practices and procedures of internal controls are implemented and maintained in order to assist the council to carry out its activities in an efficient and orderly manner to achieve its objectives, to ensure adherence to management policies, to safeguard Council's assets, and to secure (as far as possible) the accuracy and reliability of Council records.



The Internal Audit program is an important tool to provide an objective appraisal of the adequacy on internal controls in managing our risk and supporting the achievement of council objectives.

Testing of Council's transactions and internal controls by the external auditor coincides with Council's own Risk Management Framework. The External Auditor's annual inspection and certification of Council's financial position and performance provides the community with an assurance of Council's internal financial control environment in managing our risk and supporting the achievement of council objectives.

➤ **Risk Management Implications**

The implementation of actions arising from internal and external audits will assist in mitigating the risk of:

*Internal control failures occur which lead to greater uncertainty in the achievement of objectives and/or negative outcomes.*

Inherent Risk	Residual Risk	Target Risk
High (4C)	Medium (3C)	Medium (3C)

➤ **Financial and Resource Implications**

Actions arising from internal and external audits are generally accommodated in existing functional budgets. Where an agreed action requires unbudgeted funds, this will be managed through Council's budget review processes

➤ **Customer Service and Community/Cultural Implications**

There is a high expectation that Council has appropriate corporate governance processes in place including an effective internal control environment.

➤ **Environmental Implications**

Not applicable

➤ **Engagement/Consultation with Committee, Regional Subsidiary, Advisory Group and Community**

Consultation on the implementation of actions to address the audit findings was as follows:

*Council Committees:* BDO's Audit Completion Report which included items raised in relation to Internal Controls and management responses was represented to the Audit Committee on 6 November 2017.

Internal audit reports have been provided to the Audit Committee upon completion.

*Advisory Groups:* Not Applicable

*Workshops:* Not Applicable

<i>Administration:</i>	David Collins, Manager Sustainable Assets Mike Carey, Manager Financial Services Lachlan Miller, Executive Manager Governance & Performance Peter Bice, Director Engineering & Assets Ashley Curtis, Manager Civil Services Chris Janssan, Manager Open Space
<i>Community:</i>	Not Applicable

## 2. BACKGROUND

### Internal Audit

The implementation status of actions arising from internal audits is reported to the Audit Committee biannually in accordance with the Audit Committee Work Plan (see earlier agenda item).

### External Audit

The External Auditors (BDO's) final Audit Completion Report was considered at Audit Committee on 6 November 2017.

The Audit Completion Report for 2016-17, identified two internal control items relating to Rate Rebates and Credit Notes, together with one item relating to the Contract Register that was outstanding from the previous year. At the time Management's comments were also reported.

The Audit Committee was last provided an update of outstanding actions at its February 2018 meeting in which it was reported that one internal control relating to 'Credit Notes' was completed.

## 3. ANALYSIS

### Internal Audit Action Implementation

A number of internal audits have been conducted in recent years and, while the actions arising from some of these audits have been completed, the more recent audits have actions still being implemented. The implementation status of the following internal audits actions are listed in the nominated appendices:

- Asset Management - **Appendix 1**
- Credit Cards & Petty Cash - **Appendix 2**
- Governance (Legislative Compliance) – **Appendix 3**
- Procurement – **Appendix 4**
- Major Project Review - Montacute Road Project – **Appendix 5**
- IT Security Risk Assessment– **Appendix 6**

### External Audit Action Implementation

An update of the outstanding actions is provided below.

### 3.1 Rate Rebate

*Whilst it's our understanding that all rate rebates are required to be supported by appropriate documentation prior any further processing in system, we note that once rebate is approved, this is not reviewed on annual basis.*

#### Recommendation

We recommend that management implement the periodical review of rate rebates.

#### Management Comment

A rate rebate position is to be considered by Council prior to the 2018/19 rating year which will incorporate the requirement for periodic review.

#### Update

Completed.

Council undertook a review of all properties that currently receive a rebate (both mandatory and discretionary) as well as those properties that were exempt for rates as part of the 2018/19 Annual Business Plan and Budget. In addition, Council's 2018/19 Rating Policy has been updated to include the requirement for a periodic review of mandatory rebates and that discretionary rebates only be granted for the period of a Council term.

Rating Policy

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Council will confirm the continuation of a person or body's eligibility for a mandatory rebate on a regular basis (at least biennially) to ensure that rebates are only granted where they are warranted. This will require the relevant person or body to lodge an application form with such information as stipulated and any other information that the Council may reasonably require to confirm the continuation of eligibility.

Rating Policy

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Where there is no maximum timeframe specified for a rebate provided under Section 166, Council will grant a discretionary rebate to the last rating period commencing within a Council term to allow for a regular review of discretionary rate rebates.

### 3.3 Contract Register – Prior Year Finding

*The Council does not maintain a contract register as required by the Better Practice Model.*

#### Recommendation

Establishment of a contract register.

#### Management Response

Whilst Council does not maintain a contract register, it does keep a list of contracts. A formal register of contracts is considered to be appropriate and will be developed.

#### Update

Completed.

The role of Procurement Coordinator has been filled and a contract register has been developed and implemented.

#### **4. OPTIONS**

The Committee has the following options:

- I. To note the implementation status of the Internal and External Audit actions as presented; or
- II. To identify additional actions to be undertaken.

#### **5. APPENDICES**

- (1) Internal Audit Action Implementation – Asset Management (May 2014)
- (2) Internal Audit Action Implementation – Credit Cards & Petty Cash (November 2014)
- (3) Internal Audit Action Implementation – Governance (Legislative Compliance) (May 2016)
- (4) Internal Audit Action Implementation – Procurement (May 2014)
- (5) Internal Audit Action Implementation – Major Project Review - Montacute Road Project (September 2017)
- (6) Internal Audit Action Implementation – IT Security Risk Assessment (August 2015)

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# **Appendix 1**

*Internal Audit Action Implementation – Asset  
Management (May 2014)*

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Reference	Issue	Recommendation	Proposed Action	Responsible Offi	Due Date	Progress	Est. Completi	Comment
6.1.1.1	Policy	That a procedure be documented on how compliance with the policy is going to be monitored.	New policy recently adopted and review of necessary procedure underway The set up and development of the Confirm Asset Management system will consider traking of tasks and actions to align with Policy	David Collins	30/12/2017	In Progress	30/03/2018	
6.1.2.1	Registers	That all asset data be transferred into a computerised asset register.	Data Validation of existing spreadsheet and GIS information ongoing as part of transfer into Confirm Enterprise Asset Register. Business Review process and data transfer specification for bridges complete. Business Review Process for roads complete. Data transfer specification for roads in progress. specification development has identified a number of data elements that require validation prior to transfer into new system.	David Collins	21/12/2018	In Progress	21/12/2018	The vast majority of Council assets are recorded in Conquest and subsequent spreadsheets and GIS. Implementation of Confirm Asset Management System currently underway. Business Review Process complete for Playgrounds, Transport Assets (Seals, Pavements, Footpaths, Unsealed) and Bridges. Data Tranfer of Playgrounds complete and data tranfer specification being finalised for Transport and Bridges.  Bridges data has been in the test envirnment and expected to be live by September 2018.  Business Review Process for Building and Data Transfer Specification has been finalised and data clensing and review by consultant underway. The integration between system CRM, GIS and Confirm has commenced.
6.1.3.1	Recognition	That the matching of data between the Conquest and GIS systems be finalised.	This is a redundant task given that Confirm is superseding Conquest and the structure and use of GIS for recording asset management data is not proposed.	David Collins	31/05/2018	Completed	6/08/2018	See 6.1.2.1.
6.3.1	Asset Management Plans	That the implementation of asset maintenance and works management software be		David Collins	30/06/2017	Completed		Implementation of Confirm Asset Management System currently underway.
6.5.1	Asset Condition	That now that the existing condition has been documented, subsequent condition assessments need to be used to reassess the effective life of assets.	Currently Building Asset and CWMS Asset complete. Review of useful lives as part of AMP update. Condition assessment of footpaths completed in December 2017. Peer review work required to validate inital AMP review investigations of useful lives, unit rates and subsequent depreciation. Council is undertakeing an external review of its bridge asset data condition and useful lives in 2108/19.	David Collins	31/01/2018	In Progress		A schedule of asset revaluations has been developed to ensure asset categories are revalued at least every four years. The schedule is now under review given recent appointment of Manager Sustainable Assets.  High level review of the Asset Management PLans and associated data was complete din January 2018.  Unit rates and useful lives are currentlly being reviewed as data clensing is occurring with data specification works associated with the transfer of data in Confirm.

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## **Appendix 2**

*Internal Audit Action Implementation – Credit Cards &  
Petty Cash (November 2014)*

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Reference	Issue	Recommendation	Proposed Action	Responsible Offi	Due Date	Progress	Est. Completi	Comment
4.3.2	That the use of technology to improve the efficiency of capturing receipts be further investigated.	"Management will consider the use of smart phone technology for capturing receipt data. Council has already had discussions with its bank (National Australia Bank) about the use of mobile phones to capture transactional information. Staff would need to liaise with the financial system provider to investigate ways of retaining (preferably without printing) transactional evidence. Management is also aware that Goods and Services Tax (GST) may be claimable on these purchases.	Consider the requirements for using technology to capture receipts, current system abilities and legislative requirements. Council has already had discussions with its bank (National Australia Bank) about the use of mobile phones to capture transactional information.	Mike Carey	30/06/2018	Completed	30/06/2018	Flexipurchase for Purchase Cards is implemented and uses smart phone technology to capture receipts. .



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## **Appendix 3**

*Internal Audit Action Implementation – Governance  
(Legislative Compliance) (May 2016)*

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Reference	Issue	Recommendation	Proposed Action	Responsible Officer	Due Date	Progress	Est. Completion Date	Comment
Rec 11	Section 50 - Public Consultation Policy	The Council review the Public Consultation Policy (PCP) to ensure it correctly reflects the requirements of Section 50 throughout.	Programmed into policy review schedule	David Waters	28/03/2018	In Progress		Awaiting review and feedback. Scheduled for early 2018.
Rec 13	Section 77 - Reimbursement of Expenses	Ensure the Council Members Allowances and Benefits Policy (CMABP) is reviewed by December 2016 as required by the CMABP.	Review policy	Lachlan Miller	12/12/2017	Completed	27/02/2018	Revised Policy was adopted at the 27 February 2018 Council meeting.
Rec 14	80A - Training and Development	The Council ensure the Council Member Training and Development Policy (CMTDP) is reviewed by September 2018 as required by the CMTDP.	Programmed into policy review schedule	Lachlan Miller	25/09/2018	Completed	27/07/2018	Revised Policy was adopted at the 27 July 2018 Council meeting.
Rec 4	Section 43 - Ability of Council to Establish a Regional Subsidiary	Follow up the status of the review of the AHRWMA and SHLGA.	These points will be considered in Status of Charter reviews to be determined	Lachlan Miller	30/09/2018	Not Commenced	30/09/2018	AHRWMA and SHLGA Charter reviews are still to occur.

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## **Appendix 4**

*Internal Audit Action Implementation – Procurement  
(May 2014)*

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Reference	Issue	Recommendation	Proposed Action	Responsible Officer	Due Date	Progress	Est. Completion Date	Comment
4.2.1	Compliance with Applicable Policies and Procedures	That procedures should be documented for: <ul style="list-style-type: none"> <li>• the use and selection of preferred suppliers</li> <li>• Procurement Committee annual review procedure for preferred suppliers</li> <li>• tender opening</li> <li>• tender evaluation process</li> <li>• Procurement Committee policy compliance review procedures</li> <li>• determination of the staff delegations</li> <li>• approval process from the Procurement Committee if staff wish to deviate from the procurement and purchasing policy</li> </ul>	Develop procedures as recommended	Mike Carey	28/02/2018	In Progress	30/11/2018	Framework and Procedures are currently being developed. Estimated to be 80% complete. Consultation process will be soon.
4.3.2	Use of Preferred Contractors	That a procedure be developed for the acceptance of new suppliers. Council should determine what supplier details are required and who signs off on the Credit Application, which is effectively a council guarantee.	Develop procedures as recommended	Mike Carey	31/03/2018	In Progress	24/11/2018	To be developed in conjunction with with 4.2.1.

4.6.1	Tendering Processes	<p>That the tender procedure is reviewed and the following clarified:</p> <ul style="list-style-type: none"> <li>• The process should only reference the position title of responsible officers.</li> <li>• A tender box is no longer operating at Woodside.</li> <li>• Include that an automated email is sent to the Records Department's group email address to notify them that a tender has been closed.</li> <li>• In relation to the SA Tenders online mailbox, check that access requires two officers.</li> <li>• In relation to electronic tenders, the 'Tenders Received and Opened' form be specifically relating to the print screen of the summary page of the SA Tenders website</li> <li>• The 'Tenders Received and Opened' form for hard copy tenders should include a column for the Opening Committee to evidence the pricing</li> </ul>	Develop procedures as recommended.	Mike Carey	31/03/2018 In Progress	24/11/2018	<p>This is already covered in Point 4.2.1 with more specific recommendations re Tenders.</p> <p>As mentioned for 4.2.1 this will be included in the new Procurement Framework and procedures. Please note new procedure does not allow hard copy tenders to be submitted.</p>
4.8.1	Inventory	<p>That the inventory management procedures for stores, small plant and fuel at the Depot be documented to ensure compliance when the Works Storeman is absent</p>		Chris Janssan	31/03/2018 In Progress	5/10/2018	<p>Due to staff being on both sick and annual leave we have had to delay this process.</p>

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## **Appendix 5**

*Internal Audit Action Implementation – Major Project  
Review - Montacute Road Project (September  
2017)*

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Reference	Issue	Recommendation	Proposed Action	Responsible Officer	Due Date	Progress	Est. Completion Date	Comment
REC 1	Emergency Projects Decision Making Porcess Rules	Consideration of developing some rules around the decision-making processes in emergency projects and provision of authority for staff and potential partners to act on Council's behalf	Development of mechanism to clarify rules and delegations in regards to Emergency Projects and situations.	Peter Bice	30/03/2019	In Progress	30/03/2019	Council staff are exploring the most effective mechanism to incorporate appropriate rules and delegations, including project and contractor management templates.
REC 3	Emergency Management Plan	The current review of the Strategic Management Risk Register has identified the need for an Emergency Management Plan and zone based preventative maintenance programs. This appears to cover the types of events that can impact upon Council assets and infrastructure, though perhaps more emphasis might be placed on flood events given the recent experience	Stage 1 of the EMP development is in progress	Lachlan Miller	30/06/2018	In Progress	30/09/2018	Responsibility for EM has transferred to the Infrastructure & Assets Directorate, a handover of the Plan is yet to occur.
REC 4	WHS & IM arrangements with external project managers	As WHS & IM is the responsibility of the asset owner, Council could consider the development of an agreement in similar situations to ensure the protection of the people involved in projects in these circumstances	Develop protocols around clarifying roles and responsibilities in Emergency situations where external project managers are involved.	Ashley Curtis	30/03/2019	In Progress	30/03/2019	Council staff are in the process of reviewing Emergency Manaement Planing and developing a Project Management Framework which will incorporate protocols which clarify roles and responsibilities in Emergency situations where external project managers are involved.
REC 5	Post Project Review	A review could provide good feedback on the beneficial elements of the project and the potential improvements that could be made. The outcome of the review could be used to better inform any potential emergency management planning	Review the learnings from the project to identify potential improvements.	Peter Bice	31/12/2018	In Progress	31/12/2018	Council staff, and other stakeholders are currently reviewing the outcomes of the project. Learnings will help inform a current review of Council's Emergency Planning approach.

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## **Appendix 6**

*Internal Audit Action Implementation – IT Security Risk  
Assessment (August 2015)*

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Reference	Issue	Recommendation	Proposed Action	Responsible Officer	Due Date	Progress	Est. Completion Date	Comment
Rec 1	Policy and Governance	Information Security Policy	IS to create as part of a suite of policies around information and document management. Some core aspects have been captured in the Records Policy adopted by council in August.	James Sinden	30/06/2018	Completed		Device and Acceptable Usage Policies are now in place after consideration by ELT. These policies ensure information is secure when using council issued and personal devices. The policies also outline how all documents and data are to be captured appropriately into corporate line of business systems.
REC 25	Mobile Devices	Vulnerability Management	ICT to implement a proactive patching schedule for Mobility Devices	James Sinden	31/07/2018	Completed	30/06/2018	Microsoft EMS (Enterprise Mobility Security) software has now been installed and scheduling of proactively patching Councils fleet of iPhones is underway.
REC 3	Policy and Governance	Business Continuity Planning	ICT to action - (ICT BCP Plan only) included in 2015/16 Capital Works Program	James Sinden	28/02/2017	In Progress	31/10/2018	Work on the final stages of Councils ICT BCP Systems is progressing now that contracts for telecommunications services have been signed.  The final stages of Councils ICT BCP Systems is for the installation of SIP Services which has commenced and once completed, Council will be able to operate ICT Systems outside of the Adelaide Hills District.
REC 4	Policy and Governance	Incident Management	ICT to action - create a security incident management procedure	James Sinden	29/12/2017	In Progress		A draft Incident Management procedure has been developed and is to be progressed through the IISIP group for recommendation.
REC 8	Servers	Backup and Recovery	ICT to action - due to the ICT BCP Capital Works Program 2015/16 this task will need to be completed after its implementation as configuration changes will impact on how this is performed	James Sinden	31/03/2017	In Progress	31/10/2018	Formal testing of a backup and recovery operation is still to be completed.

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.7

**Originating Officer:** Mike Carey, Manager Financial Services

**Responsible Director:** Terry Crackett, Director Corporate Services

**Subject:** 2017/18 Budget – Budget Review 3

**For:** Information

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**SUMMARY**

Under the requirements of the *Local Government Act 1999*, a Council must undertake a review of its Budget at least four times throughout the financial year, with the final review examining the actual results against budget for the prior financial year.

This report presents Budget Review 3 to the Audit Committee for review. Budget Review 3 covers the quarter ending 31 March 2018 and reflects proposed adjustments for the period.

Budget Review 3 was adopted by Council on 22 May 2018.

**RECOMMENDATION**

The Audit Committee resolves to:

1. Receive and note the report.
  2. Notes that the Operating Budget variations presented in Budget Review 3 for the period ending 31 March 2018 had no impact on the budget and continued to provide for an adjusted Operating Surplus for the 2017/18 year of \$1.986m.
  3. Notes the proposed Capital Program amendments include \$170k of increased expenditure that is offset by additional capital grant funding of \$170k.
-

## 1. GOVERNANCE

### ➤ Strategic Management Plan/Council Policy

Goal                      Organisational Sustainability  
Key Issue                Risk and Responsibility

### ➤ Legal Implications

The undertaking of formal budget reviews is a requirement of the *Local Government Act 1999* and the *Local Government (Financial Management) Regulations 2011*.

### ➤ Risk Management Implications

Conducting the budget review process as required by Regulations will assist in mitigating the risk of:

*Failure to conduct budget review process as required by Regulations results in inaccurate budgets, unforecasted deficits and inadequate resourcing for current and future activities.*

Inherent Risk	Residual Risk	Target Risk
Medium (4D)	Low (2E)	Low (2E)

It ensures that financial resources are deployed in areas that align with Council's Strategic Management Plans, are affordable and support Council's Long Term Financial Plan.

### ➤ Financial and Resource Implications

During the quarter, some items were identified that require consideration as part of Budget Review 3. The variations provide for no net impact on the operating budget as a result of decreasing the CEO contingency by \$24k, and whilst there will be an increase of \$170k on capital works, this is offset by capital revenue of \$170k.

### ➤ Customer Service and Community/Cultural Implications

Not applicable.

### ➤ Environmental Implications

Not applicable.

### ➤ Community Engagement/Consultation

Not applicable.

## 2. BACKGROUND

Section 9(1)(b) of the *Local Government (Financial Management) Regulations 2011* requires quarterly consideration of the Council's budget for a particular financial year.

### 3. ANALYSIS

The budget review and quarterly reports have been prepared in consultation with Directors and Managers to obtain detailed information for each budget area.

Council's customary practice is to include Budget Reviews as an agenda item at Audit Committee meetings. Due to the timing of Audit Committee meetings and the prescribed timelines required by Section 9(1)(b) of the *Local Government (Financial Management) Regulations 2011*, it is not always possible for the Audit Committee to receive and note the Budget Review and recommend it to Council prior to adoption.

#### a. Operating

Key operating variations included in this review are as follows:

##### Revenue \$34k increase

- The proposed Rates adjustment of \$7k relates to a reduction in CWMS rates in line with actuals rates levied
- Statutory Income increase of \$14k relating to increased income of \$24k for dog registrations offset by a \$10k decrease in predicted parking expiations income for the year
- User charges income increased by \$41k largely relating to an increase in Additional Bin Income
- The proposed Grants increase of \$21k relates to unbudgeted grants for the Community and Home Support Program and Library Services which require a matching increase in expenditure
- A proposed decrease of \$25k in investment income to align to YTD actuals
- A proposed reduction in Other Income of \$11k largely representing:
  - a \$54k reduction in budgeted Recyclable Rebate Income as a result of the China Sword impact; offset by
  - a workers compensation premium refund from the previous year of \$21k and
  - an Operating Surplus distribution to member councils of \$17k from East Waste

##### Expenses \$34k increase

- For employee costs the proposed decrease of \$62k relates to employee savings in vacant positions
- there is a net increase in Materials, Contract & Other expenses of \$120k across a number of items including \$21k relating to grant related expenditure as a contra to income as mentioned above.

Other more material items include:

- a new budget for recycling processing fees of \$69k as a pass through cost from East Waste for the period March through to June (China Sword),
- rate printing & postage costs increase of \$37k to reflect actual costs incurred
- Information Technology net savings of \$30k in leasing, contractors and training

As a result of the net impact of the above operating variations, the CEO contingency was reduced by \$24k to \$207k to offset the expenditure increases. Combined with the proposed changes to Materials, Contract & Other disclosed above, this results in the overall increase in this expense category of \$96k as disclosed in the Uniform Presentation of Finances.

**b. Capital**

The net impact resulting from proposed variations in the capital works program result in an increased total expenditure of \$170k which is offset by an equivalent amount of capital revenue. As such there will be no net impact on the end of year budget position.

Capital Income - \$170k increase

- Council will receive additional grant funding from the Federal Black Spot Program from safety improvements along Old Mt Barker Road – Aldgate
- Council is anticipating income from the State Government towards footpath on Frick Street, Lobethal

Capital Expenditure - \$170k increase

- Council has an obligation to complete a Federal Blackspot Project from 2016/17 that includes safety improvements along Old Mt Barker Road – Aldgate – Council has a project in 2016/17 that should have been carried forward to this current financial year.
- Council officers have been planning for the installation of footpath in Frick Street, Lobethal and Terlinga Street, Mt Torrens in response to community concern regarding increase heavy vehicles accessing the Lobethal Abattoir and the longer term use of the route by B-Doubles vehicles. Council footpath contractors have the capacity to commence works on Frick Street this financial year.

**4. OPTIONS**

Audit Committee is limited to receiving and noting this report.

**5. APPENDIX**

- (1) 2017-18 Budget Review 3 Uniform Presentation of Finances

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# **Appendix 1**

*2017-18 Budget Review 3 – Uniform Presentation of  
Finances*

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Adelaide Hills Council

**BUDGETED UNIFORM PRESENTATION OF FINANCES**  
2017-18 Budget Review 3

2016-17 Actual		2017-18 Original	BR1	CF	Capital Review	BR2	BR3	2017-18 Revised
\$'000		\$'000						\$'000
<b>INCOME</b>								
34,301	Rates	35,520	0			16	(7)	35,530
1,022	Statutory charges	975	0			16	14	1,005
1,337	User charges	1,352	5			6	41	1,404
5,048	Grants, subsidies and contributions	2,870	2,502			22	21	5,415
36	Investment income	58	0			0	(25)	34
265	Reimbursements	342	0			151	0	493
483	Other income	319	0			52	(11)	360
57	Net gain - equity accounted Council businesses	125	(125)			0	0	0
<b>42,549</b>	<b>Total Income</b>	<b>41,561</b>	<b>2,382</b>	<b>-</b>	<b>-</b>	<b>264</b>	<b>34</b>	<b>44,241</b>
<b>EXPENSES</b>								
14,505	Employee costs	15,833	58			40	(62)	15,870
18,687	Materials, contracts & other expenses	16,737	499			359	96	17,690
7,792	Depreciation, amortisation & impairment	8,027	0			0	0	8,027
781	Finance costs	803	0			(135)	0	668
334	Net loss - equity accounted Council businesses	0	0			0	0	0
<b>42,099</b>	<b>Total Expenses</b>	<b>41,400</b>	<b>557</b>	<b>-</b>	<b>-</b>	<b>264</b>	<b>34</b>	<b>42,255</b>
450	<b>NET BUDGETED SURPLUS / (DEFICIT) BEFORE CAPITAL AMOUNTS</b>	161	1,825	-	-	-	-	1,986
<b>Net Outlays on Existing Assets</b>								
(6,580)	Capital Expenditure on Renewal and Replacement of Existing Assets	(12,751)	(464)	(2,644)	2,024	1,136	0	(12,699)
754	Proceeds from Sale of Replaced Assets	0	459	0		0	0	459
7,792	Depreciation	8,027	0	0		0	0	8,027
<b>1,966</b>	<b>NET OUTLAYS ON EXISTING ASSETS</b>	<b>(4,724)</b>	<b>(5)</b>	<b>(2,644)</b>	<b>2,024</b>	<b>1,136</b>	<b>0</b>	<b>(4,213)</b>
<b>Net Outlays on new and Upgraded Assets</b>								
(3,423)	Capital Expenditure on New and Upgraded Assets & Remediation costs	(5,363)	(87)	(1,129)	1,812	763	(170)	(4,174)
672	Capital Grants and Monetary Contributions for New and Upgraded Assets	2,600	(1,716)	-	-	33	170	1,087
-	Proceeds from Sale of Surplus Assets	1,680	0	-	-	(395)	0	1,285
<b>(2,751)</b>	<b>NET OUTLAYS ON NEW AND UPGRADED ASSETS</b>	<b>(1,083)</b>	<b>(1,803)</b>	<b>(1,129)</b>	<b>1,812</b>	<b>400</b>	<b>0</b>	<b>(1,803)</b>
<b>(335)</b>	<b>Net Lending/ (Borrowing) for Financial Year</b>	<b>(5,646)</b>	<b>17</b>	<b>(3,773)</b>	<b>3,836</b>	<b>1,536</b>	<b>0</b>	<b>(4,030)</b>

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.8

**Originating Officer:** Lachlan Miller, Executive Manager Governance & Performance

**Responsible Director:** Andrew Aitken, Chief Executive Officer

**Subject:** Risk Management Update

**For:** Information

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**SUMMARY**

This report provides the Audit Committee with an update on Risk Management activities including the current status of the Strategic Risk Profile and Management Plan.

In relation to the Strategic Risk assessments, there has been no change to the Inherent, Residual or Target risk ratings for the quarter.

In relation to the implementation of Mitigation Actions to manage the Strategic Risks, the following results have been achieved which is an improvement on the April 2018 results:

- Completed: 61% (46) up from 60% (45) due to the completion of an action
- In Progress: 39% (29) up from 40% (30) due to the commencement of one action and completion of one action
- Not Commenced: 0% (0) no change
- One (1) new mitigation initiative was created/commenced in this quarter.

**RECOMMENDATION**

**The Audit Committee resolves that the report be received and noted.**

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**1. GOVERNANCE**

Goal	Organisational Sustainability
Strategy	Governance

Updating the risk management framework, which addresses workplace health and safety, emergency management, business continuity, public liability and legislative accountability assists in meeting legislative and good governance responsibilities and obligations



➤ **Legal Implications**

A number of sections of the *Local Government Act 1999* require councils to identify and manage the risks associated with its functions and activities. Further, s125 requires council to have appropriate internal controls.

Similarly the *Work Health & Safety Act 2012* is structured around the protection of workers and others against harm to their health, safety and welfare through the elimination or minimisation of risk arising from work or specified substances or plant.

➤ **Risk Management Implications**

Improvements in the implementation of the risk management framework will assist in mitigating the risk of:

*A lack of effective risk management occurs which leads to greater uncertainty in the achievement of objectives and/or negative outcomes.*

Inherent Risk	Residual Risk	Target Risk
Extreme (5C)	Medium (4D)	Medium (4D)

Note that there are many other controls that assist in mitigating this risk.

➤ **Financial and Resource Implications**

While there are no direct financial or resource implications from this report, a number of Strategic Risk Profile and Management Plan treatments are impacted by funding limitations.

➤ **Customer Service and Community/Cultural Implications**

There is a high expectation that Council has appropriate corporate governance processes in place including an effective corporate risk management system.

➤ **Environmental Implications**

Environmental matters have been considered within the development of the Strategic Risk Profile and Management Plan.

➤ **Engagement/Consultation with Committee, Regional Subsidiary, Advisory Group and Community**

Consultation has occurred internally with the Strategic Risk Owners.

*Council Committees:* Not Applicable

*Advisory Groups:* Not Applicable

*Administration:* Terry Crackett, Director Corporate Services  
David Waters, Director Community Capacity  
Marc Salver, Development & Regulatory Services  
Peter Bice, Director Infrastructure & Operations  
Lachlan Miller, Executive Manager Governance & Performance  
Megan Sutherland, Executive Manager Organisational Development

*Community:* Not Applicable

## 2. BACKGROUND

Council adopted the revised Risk Management Policy at its 25 February 2014 Council meeting. The Audit Committee considered the key elements of the Corporate Risk Management Framework at its May 2014 meeting and suggested a number of enhancements. The revised Framework was adopted by Council at its 24 June 2014 meeting.

A Strategic Risk Profile and Management Plan was developed documenting eleven strategic risks (SR), with SR 9 broken into three sub risks.

The Strategic Risk Profile and Management Plan, including controls and treatment plans against each strategic risk, was initially received by the Audit Committee at its meeting on 22 February 2016 and subsequently by Council at its ordinary meeting on 23 February 2016. This process has since continued each quarter

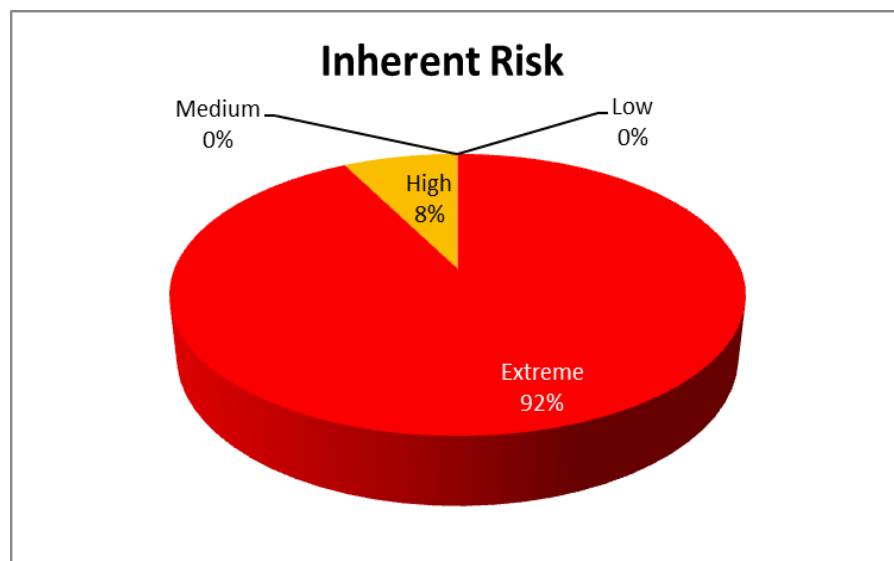
In February 2017, the Executive Leadership Team reviewed the ownership of the strategic risks to more appropriately align the risks with functional responsibilities with the first round of assessments conducted by the new risk owners for the May 2017 assessment.

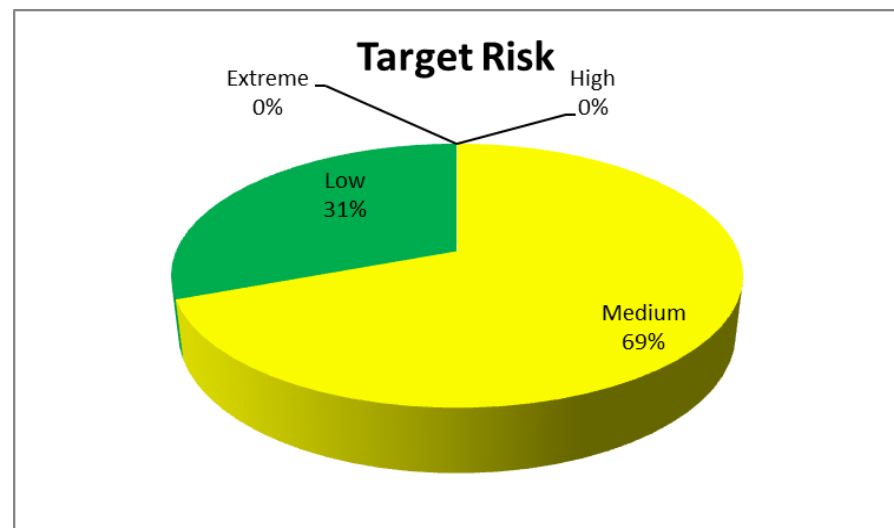
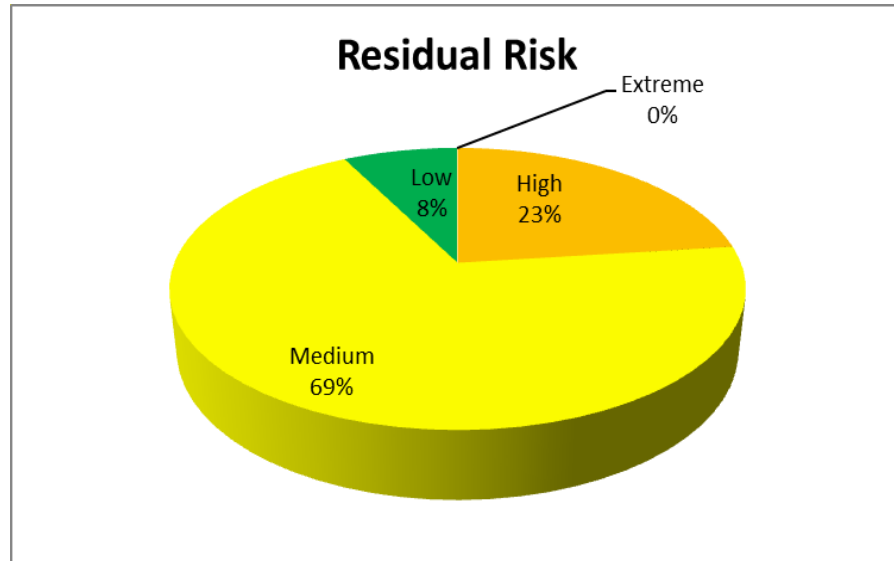
## 3. ANALYSIS

### Strategic Risk Profile

The Strategic Risks are regularly reviewed by the risk owners responding to triggers in the risk environment, changes in causation or impact, changes in the control environment and on the completion of mitigation actions (which then form part of the control environment) which collectively can impact the likelihood and/or consequence of the risk.

The Strategic Risks were recently reassessed and the following diagrams depict the Inherent, Residual and Target ratings. There has been no change to the Inherent, Residual and Target risk ratings from the last (April 2018) assessment.

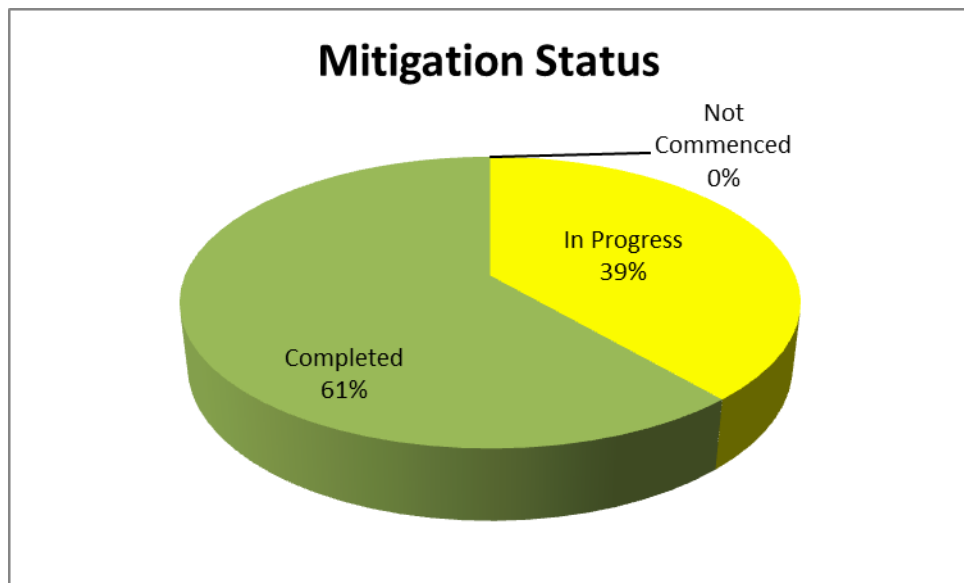




Notwithstanding the absence of change in the risk ratings, the implementation of Mitigation Actions has been progressing steadily. The current status is:

Status	November 2017	February 2018	April 2018	August 2018
<b>Completed</b>	53% (39 actions)	61% (45 actions)	60% (45 actions)	61% (46 actions)
<b>In Progress</b>	44% (33 actions)	38% (28 actions)	40% (30 actions)	39% (29 actions)
<b>Not Commenced</b>	3% (2 actions)	1% (1 action)	0% (0 actions)	0% (0 actions)
<b>New Initiatives (in above totals)</b>	0 actions	0 actions	1 action	1 action

This is shown diagrammatically below:



#### Governance & Risk Coordinator

The Committee has previously been briefed on the creation of a Governance & Risk Coordinator role within the Governance & Performance Department. Mr Steven Watson was successful in the role and has been with Council since July 2018.

With Governance and Risk Coordinator role filled, an interim division of responsibilities has been put in place with the Executive Manager coordinating the internal and external audit programs and the Coordinator coordinating the risk management program.

One of the key initial projects for the Coordinator role is the review of Council's Risk Management Framework. This review will include, but not be limited to, the revised Risk management Standard (ISO 31000:2018, the Better Practice Guide for Internal Financial Controls, guidance from the LGA Workers Compensation and Mutual Liability Schemes, and the functionality of the ControlTrack Risk Management Module.

It is anticipated that the review will propose changes to manner in which Council identifies, manages, monitors and reports risk.

#### **4. OPTIONS**

The Audit Committee has the following options:

- I. To note the update on the Strategic Risk Profile as presented (recommended),
- II. To determine not to note either or both updates and/or identify additional actions to be undertaken.

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.9

**Originating Officer:** Mike Carey, Manager Finance Services

**Responsible Director:** Terry Crackett, Director Corporate Services

**Subject:** Placement of Council's Insurance Portfolio

**For:** Information

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**SUMMARY**

To provide the Audit Committee with an overview of Council's insurance portfolio for 2018/19

**RECOMMENDATION**

**The Audit Committee resolves that the report be received and noted.**

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**1. GOVERNANCE**

➤ **Strategic Management Plan/Council Policy**

Goal	Organisational Sustainability
Key Issue	Risk and Responsibility

➤ **Legal Implications**

The *Local Government Act 1999* sets out a number of requirements regarding insurance:

- Section 80 states that Council must take out insurance to cover Elected Members against risks associated with performing their duties.
- Section 142 requires Councils to take out and maintain insurance to cover its civil liabilities at least to the extent prescribed by the regulations.

➤ **Risk Management Implications**

Insurance is a prudent strategy to mitigate risk associated with providing Council services and affords Council a level of resilience and confidence so that it can continue to operate through unforeseen circumstances and loss.

Entering into insurance contracts will assist in mitigating the risk of:

*Financial loss to Council resulting from uninsured events for which Council is liable.*

Inherent Risk	Residual Risk	Target Risk
Extreme (5C)	Medium (3D)	Medium (3C)

➤ **Financial and Resource Implications**

Insurance is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss.

➤ **Customer Service and Community/Cultural Implications**

Not applicable.

➤ **Environmental Implications**

Not applicable.

➤ **Community Engagement/Consultation**

Not applicable.

**2. BACKGROUND**

The *Local Government Act 1999* Sec 80 states that Council must take out insurance to cover council Members against risks associated with performing their duties. The Act also provides that the Local Government Association of South Australia (SALGA) will conduct and manage self-insurance schemes for the benefit of Councils.

The self-insurance schemes managed by the SALGA include cover for workers compensation, income protection, property and plant and public liability.

**3. ANALYSIS**

**LGA Asset Mutual Fund**

The Asset Mutual Fund provides coverage for Council owned property including but not limited to Buildings, Bridges, Plant, Machinery, Contents, Motor Vehicles and Mobile Plant. Cover for the Council's property and contents under the Asset Mutual Fund, are required to be at replacement value of the assets in a condition and construction in an “as new state”.

Damage to general civil infrastructure is not covered by the Asset Insurance Policy, due to the significant value of the Civil infrastructure network within Council's area, the increase in premium cost would significantly outweigh the likely cost of any claim and therefore is uneconomical to cover. This approach is standard practice within the Local Government sector.

However, since 2015 Bridges have been listed on the Council's Asset Insurance Schedule as an assessment has been made that it would be appropriate given the risks involved including the susceptibility of washaways as a result of flooding.

#### **Public Liability**

The Council is a member of the Mutual Liability Fund. This covers the Council's risk for people tripping over on the footpaths, falling trees, etc. This cover is unlimited and the policy is an all Civil Liability cover and takes into account public liability, professional indemnity, director and officer indemnity and any other action in which the Council may be sued.

#### **Income Protection Fund**

The Income Protection Policy provides Income Protection and Capital benefits coverage to the Council for and on behalf of staff. Council includes this insurance as part of its Enterprise Agreements, which provides a benefit to employees for up to two years for accident or illness.

#### **General & Products Liability**

The General & Products Policy provides coverage to Council on behalf of;

- all uninsured *ad hoc* or occasional hirers Council owned or controlled facilities; and
- all regular user groups (as declared) of Council owned or controlled facilities;
- for Death or Personal Injury and Loss or Damage to Property happening during the Period of Insurance and caused by an occurrence in connection with the hire of the Council facility.

#### **Personal Accident**

Personal Accident Insurance provides coverage for Death and Total or partial disablement for Insured Parties listed below:

- Insured persons are covered whilst engaged in any activity directly or indirectly connected with or on behalf of the Council including travel to and/or from any such activity.
- Council Members and their accompanying Partners/Spouses.
- Employees and their accompanying Partners/Spouses, (excluding claims where the employee is entitled to benefits under any Workers Compensation legislation)
- Volunteers whilst engaged in any voluntary work directly or indirectly connected with or on behalf of the Council including individual members of any Trust or Committee formed by Council.
- Persons whilst engaged in any Government Labour Market, Training or Job Creation Projects.
- Members of the Council's Development Assessment Panel and Audit Committee.

### **Journey Injury**

Journey Injury Insurance provides coverage for Bodily Injury to Employees whilst engaged in a journey to and from their place of residence and place of work and between a place of training and place of work.

### **Restructure of LGA Schemes.**

We have been advised recently that following an Auditor-General review of Local Government Indemnity Schemes in 2015, a number of recommendations including restructuring the LG Scheme have now been implemented. This restructuring has resulted in a reduction in Workers Compensation Premiums of 7% for 2018/19 while maintaining the Mutual Liability Scheme premiums at the same level as 2017/18.

The following provides a summary of the cost of Council insurance portfolio:

<b>LGA Insurance Fund</b>	<b>\$'000 (ex GST)</b>	
	<b>Actuals 2017/18</b>	<b>Invoiced 2018/19</b>
LGA Workers Compensation Scheme	435	376
LGA Asset Mutual Fund (incl Bridges)	263	281
LGA Income Protection Fund	217	244
LGA Mutual Liability Scheme	295	295
Ad Hoc Hall Hirers	2	1
Advisory committees	5	5
Community Care Contractors	1	1
Employee Journey	8	9
Personal Accident (incl Elected Members)	2	2
Library Stock	2	0
Roadside Stalls	1	3
<b>TOTAL:</b>	<b>\$1,238</b>	<b>\$1,217</b>

In relation to movements between years, the following is noted:

- For workers compensation, the increase in declared salary & wages of 4% is more than offset by a reduction in overall premium as a result of Local Government Risk Services restructuring and an increase in rebate received by Council largely as a result of an improved WHS Audit Score. Council’s net premium rate for 2018/19 is 2.16% compared to the Local Government average net rate for 2018/19 of 2.49% and Council’s net rate for 2017/18 of 2.62%
- For the LGA Asset Mutual Fund, the increase from 2017/18 is solely due to an increase in assets insured as a result of a more detailed review of Infrastructure Assets that need to be insured. This included CWMS Assets, Buildings & Sporting Ground Facilities, Sculptures as well as an increase in the sum insured for loss of revenue, rentals and additional expenditure .
- For Income Protection, an increase of 7% in premium rates as well as a 5% increase in declared salary & wages has resulting in an overall increase of \$27k, being 12%. The Scheme has advised that the premium rate increase is as a result of the impact of claims performance of the sector in recent years.



**4. OPTIONS**

The Committee has the following options:

- I. To note the status of Council’s insurance portfolio for 2018/19 as presented.
- II. To recommend additions or changes to the insurance portfolio.

**ADELAIDE HILLS COUNCIL  
AUDIT COMMITTEE MEETING  
Monday 13 August 2018  
AGENDA BUSINESS ITEM**

**Item:** 6.10

**Originating Officer:** Mike Carey, Manager Financial Services  
**Responsible Director:** Terry Crackett, Director Corporate Services

**Subject:** Quarterly Debtors Report

**For:** Information

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**SUMMARY**

The Audit Committee has previously requested and received a list of outstanding debtors on a quarterly basis.

This report covers the period ending 30 June 2018.

**RECOMMENDATION**

**The Audit Committee resolves that the report be received and noted.**

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**1. GOVERNANCE**

➤ **Strategic Management Plan/Council Policy**

Goal	Organisational Sustainability
Key Issue	Risk and Responsibility

➤ **Legal Implications**

Council may obtain funds by recovering fees, charges, penalties or other money payable to it under S133 of the *Local Government Act 1999*.

Council also has obligations specified within the current Community Wastewater Management Scheme (CWMS) licence that require an endorsed hardship policy for customers. Failure to establish this policy will result in Council breaching current licence conditions.

➤ **Risk Management Implications**

Monitoring the balances of Debtors through regular reporting will assist in mitigating the risk of:

*Poor debt recovery practices which lead to increased levels of overdue debtors will negatively impact on Council's current cashflow as well as reduce the likelihood of future debt recovery.*

Inherent Risk	Residual Risk	Target Risk
Extreme (4B)	Medium (3D)	Medium (3D)

➤ **Financial and Resource Implications**

Close monitoring of debt supported by an agreed Policy will ensure that any cashflow impact on Council is minimised.

➤ **Customer Service and Community/Cultural Implications**

Nil

➤ **Environmental Implications**

Nil

➤ **Engagement/Consultation conducted with Council Committee, Regional Subsidiary, Advisory Group, the Administration and Community**

*Council Committees:* Not applicable

*Advisory Groups:* Not applicable

*Administration:* Operational areas have been involved in the development of this report to provide specific details, where necessary. Financial Services have overall responsibility for the Accounts Receivable function within Council, being involved in invoicing and follow up of amounts where they are not paid in a timely basis.

*Community:* Not applicable

## 2. **BACKGROUND**

Council generates income from a variety of sources including rates, grants, fines (infringements), development applications and fees and charges for the provision of goods and services to individuals, businesses and other organisations in the community.

This income is managed using financial management systems which also enables recording of amounts owing to Council and information relating to amounts paid. Appropriate action can be taken to collect amounts owing where they are not paid in a timely manner.

The Debtors report covering balances as at 31 March 2018 was last presented to the Audit Committee on 30 April 2018.

### 3. ANALYSIS

#### Rates Debtors

The table below compares Council's debtor balances, over the last five (5) year ends, summarised by category. It shows the size of the debtors, but not the age.

Council's rates debtor balances is dominated by rates that are struck in full in July, then quarterly fluctuations of receipts, which makes comparison of rates debtors within the year difficult to interpret. As such, this debtor is reported on an annual basis to the first Audit Committee after 30 June of each year.

<b>Rate Debtor Comparison across Financial Years \$'000</b>					
<b>Debtors</b>	<b>June 2014</b>	<b>June 2015</b>	<b>June 2016</b>	<b>June 2017</b>	<b>June 2018</b>
Rates General	1,629	1,908	1,539	1,333	1,476
Rates Postponed	22	20	25	55	75
	<b>1,651</b>	<b>1,928</b>	<b>1,564</b>	<b>1,388</b>	<b>1,551</b>
Rate Revenue	<b>31,389</b>	<b>32,312</b>	<b>33,811</b>	<b>34,301</b>	<b>35,513</b>
% Outstanding to Rates Raised	<b>5.3%</b>	<b>6.0%</b>	<b>4.6%</b>	<b>4.0%</b>	<b>4.4%</b>

#### ***Sale of Land for Non Payment of Rates Update***

A Debt Recovery Policy adopted in December 2015 supports the sale of land for unpaid rates where arrears are in excess of the 3 year requirement outlined within s184 of the *Local Government Act 1999*.

As previously advised a process has being commenced to progress a further 8 properties to sale with the current owners of these properties being issued a notice of intent to sell and Council endorsing the sale of those properties at the 24 April 2018 Council meeting.

Of the 8 properties, 4 have been paid in full with discussion with a further 3 ratepayers indicating payment is imminent within the next 2 weeks. It is likely that the remaining property will be progressed to sale given that no correspondence has been received to date and as there is no mortgage on the property, the option of repayment by mortgagee is not available. This property will be referred to the real agent for sale upon confirmation that there are no issues with the 3 properties due to be finalised within the next 2 weeks.

#### Sundry Debtors

A summary of the Aged Debtors as at 30 June 2018 has been provided within **Table 1** of this report with the total Sundry debtors outstanding totalling \$422k. The balance > 150 days is the lowest it has been since regular reporting to the Audit Committee has occurred.

In relation to **Table 1** following points of clarification are provided:

- The Additional bins debt in > 150 days have been further reduced from \$12,356 at 31 December 2017 to \$5,671 at 31 March 2018 to \$3,271 as at 30 June 2018 due to more effective debt collection activity. As mentioned previously, all additional bin debtors with outstanding balances have had their waste service ceased by East Waste and have been sent to our debt collection agency.

- The Burial fees category includes an amount of \$60k in late June which was paid on 23 July 2018. The balance > 150 days has been further reduced by \$750 since the date of this report due to a payment arrangement being entered into with the balance of \$1,640 for that debtor expected to be paid in the near future.
- The balance of > 150 days for Miscellaneous has been reduced from \$59k to \$31k at 30 June. Of those debtors in the > 150 days category, the larger outstanding amounts include:
  - \$23k relates to AHBTC Debtors previously invoiced by Pope Nitschke. AHC staff are continuing to work with tenants to resolve some inconsistencies between the Agent's, Council's and tenant's records around these outstanding amounts. We expect the majority of this to be resolved before the next Audit Committee meeting;
  - The \$12k relating to a Sporting Club Debt outstanding for many years and referenced in the last report has now been fully paid;
  - The Property Management team have indicated that the 150 day debts are currently a priority to resolve as soon as possible.
- The >150 days debt levels for Food Premises Inspections and Road Rents have also decreased since the last report.

**Table 1 – Aged Debtors Summary as at 30 June 2018**

Description	TOTAL	<30 Days	<60 Days	<90 Days	<120 Days	<150 Days	>150 Days
Additional Bins	<b>3,538</b>	267	0	0	0	0	3,271
Burial Fees	<b>101,285</b>	92,038	550	0	302	2,776	5,619
Fire Hazard Reduction	<b>1,644</b>	0	0	0	0	0	1,644
Food Premises Inspection	<b>6,510</b>	1,442	472	0	1,671	0	2,925
Grants Receivable	<b>132,000</b>	132,000	0	0	0	0	0
Miscellaneous	<b>176,997</b>	98,738	26,909	0	1,030	19,782	30,539
Private Works	<b>65</b>	0	0	0	0	0	65
Road Rents	<b>425</b>	0	0	0		0	425
<b>TOTAL:</b> <b>30/6/2018</b>	<b>422,464</b>	<b>324,485</b>	<b>27,931</b>	<b>0</b>	<b>3,003</b>	<b>22,558</b>	<b>44,488</b>

Description	TOTAL	<30 Days	<60 Days	<90 Days	<120 Days	<150 Days	>150 Days
31/12/2017	346,257	129,349	30,041	27,212	6,593	62,701	90,361
30/9/2017	1,376,429	1,184,457	72,348	42,496	1,131	12,962	63,035
30/6/2017	620,677	479,988	35,699	2,966	1,045	252	100,727
31/3/2017	235,285	98,615	608	2,612	1,282	5,880	126,288
31/12/2016	264,684	88,943	11,508	3,221	22,118	8,226	130,668
30/9/2016	295,149	121,555	9,053	69,335	6,290	13,671	75,245
30/6/2016	369,569	160,809	63,538	36,181	7,055	20,976	81,011
30/11/2015	481,456	131,857	181,985	27,707	(3,288)	1,434	141,761

### Community Loans

At the Council meeting held 24 April 2018 a Community Loans Policy was adopted that required the annual reporting of outstanding loans. It is considered that reporting the 30 June balances would be the most appropriate timing for this new policy requirement as provided below.

**Table 2 –Community loans Summary as at 30 June 2018**

Loans to Community Organisations	30 June 2018 Balance (Principal) \$	Interest Rate (%)	Maturity Date
Woodside Bowling Club (Deb24)	6,926	6.25	15/09/2018
Lobethal Rec Ground Sports Cl (Deb14)	64,673	7.30	30/06/2022
<b>Total</b>	<b>71,599</b>		

Both current Community Loans are up-to-date. In the previous quarter we highlighted that one other sporting club loan was behind in payment but this loan has now been paid in full with Nil owing at 30 June.

#### **4. OPTIONS**

The Audit Committee is limited to receiving this report.