

COMMITTEE AGENDA

Audit Committee

Notice is hereby given pursuant to the provisions of the Local Government Act, 1999, that the next Meeting of the Audit Committee will be held in the Council Chambers, 181 Unley Road Unley on

Tuesday 08 August 2023 6.30pm

for the purpose of considering the items included on the Agenda.

Chief Executive Officer

MEMBERS

Presiding Member M Davies (Presiding Member)
Independent Member P Lee
Independent Member A Martin
Councillor M Broniecki
Councillor J Gaffey

ACKNOWLEDGEMENT

Ngadlurlu tampinhi, ngadlu Kurna yartangka inparrinhi. Ngadlurlu parnuku tuwila yartangka tampinhi.

*Ngadlurlu Kurna Miyurna yaitya yarta-mathanya Wama Tarntanyaku tampinhi. Parnuku yailtya, parnuku tapa purruna yalarra puru purruna.**

We would like to acknowledge this land that we meet on today is the traditional lands for the Kurna people and that we respect their spiritual relationship with their country.

We also acknowledge the Kurna people as the traditional custodians of the Adelaide region and that their cultural and heritage beliefs are still as important to the living Kurna people today.

*Kurna Translation provided by Kurna Warra Karrpanthi

ORDER OF BUSINESS

ITEM	PAGE NO
1. ADMINISTRATIVE MATTERS	
1.1 APOLOGIES	
Nil	
1.2 LEAVE OF ABSENCE	
Nil	
1.3 CONFLICT OF INTEREST	
<i>Members to advise if they have any material, actual or perceived conflict of interest in any Items in this Agenda and a Conflict of Interest Disclosure Form (attached) is to be submitted.</i>	
1.4 MINUTES	
1.4.1 Minutes of the Ordinary Audit Committee Meeting held Tuesday, 16 May 2023	
1.5 DEFERRED / ADJOURNED ITEMS	
Nil	
2. REPORTS	
2.1 Update of 2023 Audit Committee Workplan	5
2.2 Quarterly Risk Report (August 2023)	8
2.3 External Audit - Progress of Agreed Actions from Interim Report August 2023	19
2.4 Internal Audit Report - Property Leases and Licences (June 2023)	49
2.5 Internal Audit Report - Regulatory Services (July 2023)	64
2.6 Prudential Management Policy	74

3. OTHER BUSINESS

NEXT MEETING

Tuesday 17 October 2023 - 6.30pm

Council Chambers, 181 Unley Road, Unley

INFORMATION REPORT

REPORT TITLE:	UPDATE OF 2023 AUDIT COMMITTEE WORKPLAN
ITEM NUMBER:	2.1
DATE OF MEETING:	08 AUGUST 2023
AUTHOR:	ALEX BROWN, MANAGER FINANCE AND PROCUREMENT
DIVISION:	BUSINESS SUPPORT AND IMPROVEMENT
ATTACHMENTS:	1. UPDATED 2023 AUDIT COMMITTEE WORKPLAN

1. **PURPOSE**

This report provides the Audit Committee with an update of the Audit Committee Workplan (the Workplan) for the 2023 calendar year.

2. **RECOMMENDATION**

That:

1. The report be received.
-

3. **RELEVANT CORE STRATEGIES – FOUR YEAR DELIVERY PLAN**

4. Civic Leadership

4.1 We have strong leadership and governance.

4.3 Our business systems are effective and transparent.

4. **BACKGROUND**

The Audit Committee's function is to monitor the risk management and internal control environment of Council's operations.

The Audit Committee also has responsibility for overseeing Council's internal and statutory audit responsibilities and functions in accordance with section 126 of the *Local Government Act 1999*.

Under the Committee's terms of reference, the Audit Committee has an important independent role in assisting the Council in monitoring the following areas:

- Financial Reporting and Sustainability
- Risk Management and Internal Controls
- Internal Audit and Compliance
- External Audit
- Governance

The current workplan was developed to guide and report on the Audit Committee's activities for the 2023 calendar year and was endorsed by the Audit Committee on 28 March 2023.

The Workplan is monitored at each Audit Committee meeting and updated as required to ensure that the Committee delivers on its responsibilities as determined in the Audit Committee Terms of Reference.

5. **DISCUSSION**

The Workplan has been updated to:

- Reflect the completed work, including the completion of the Regulatory Services Audit earlier than expected;
- Incorporate the selection of a new External Auditor for 2023-24, as Galpin's five-year term concludes following the completion of the 2022-23 External Audit; and
- Reflect the revised timing of the Procurement Policies and presentation from Brownhill Keswick Creek Stormwater Project.

The review of the procurement policies has been deferred so that the revised policies can incorporate refinements in procurement practices, which the Procurement Team are presently working through.

The updated Workplan is included in Attachment 1.

Attachment 1

6. **REPORT AUTHORISERS**

Name	Title
Nicola Tinning	General Manager, Business Support & Improvement

City of Unley

Updated 2023 Audit Committee Workplan (August 2023)

Item	Tues 28 March	Tues 16 May	Tues 8 August	Tues 17 October	Tues 14 November
Strategic & Financial					
Draft Long Term Financial Plan					■
2023-24 Annual Business Plan and Budget		✓			
2022-23 General Purpose Financial Statements				■	
External Audit					
External Audit - Interim Report		✓			
External Audit - Progress of Agreed Actions			✓		■
External Audit - Selection of New Auditors					■
Internal Audit					
Internal Audit Plan 2023	✓				
Internal Audit - Progress of Agreed Actions		✓		■	
Internal Audit - Leases and Licences			✓		
Internal Audit - Infringements & Expiations			✓ ←	■	
Internal Audit - Payroll					■
Other Risk Management					
Internal Financial Controls	✓				
Quarterly Risk Report	✓	✓	✓		■
Policy Review					
Procurement Policies		■	→	■	
Prudential Management Policy			✓		
Risk Management Policy				■	
Treasury Management Policy				■	
Presentations					
Brown Hill Keswick Creek Stormwater Project			■	→	■
Centennial Park Cemetery Authority	✓				
East Waste					TBC

The Presiding Member Report was presented to Council at the March meeting.

The Financial Performance Report, Quarterly Budget Review and Preliminary End of Year Reports will be distributed to the Audit Committee Members once the reports have been presented to Council.

INFORMATION REPORT

REPORT TITLE:	QUARTERLY RISK REPORT (AUGUST 2023)
ITEM NUMBER:	2.2
DATE OF MEETING:	08 AUGUST 2023
AUTHOR:	JIM PHILLIPS, PRINCIPAL RISK MANAGEMENT OFFICER
DIVISION:	BUSINESS SUPPORT AND IMPROVEMENT
ATTACHMENTS:	1. STRATEGIC RISK REVIEW JULY 2023

1. **PURPOSE**

This report provides an update following a review of the Strategic Risk Register for the quarter ending June 2023.

2. **RECOMMENDATION**

That:

1. The report be received.
-

3. **RELEVANT CORE STRATEGIES – FOUR YEAR DELIVERY PLAN**

4. Civic Leadership

4.1 We have strong leadership and governance.

4.3 Our business systems are effective and transparent.

4. **BACKGROUND**

The Executive Management Team (EMT) reviews the Strategic Risk Register (SRR) on a quarterly basis to consider:

- The risk ratings for all strategic risks;
- The appropriateness of the treatment plans and management's progress in completing them; and
- If there were any new or emerging strategic risks.

5. **DISCUSSION**

EMT conducted their quarterly review of the SRR on Tuesday 11 July 2023.

The review identified that:

- The existing identified strategic risks remain relevant.
- **Strategic Risk 1:** The progress and implementation date of the revised Project Management Framework has now been completed, with the Project Management Framework now becoming a control.
- **Strategic Risk 2:** A new treatment has been added following the identification of a potential emerging risk at the last review.
- **Strategic Risk 3:** Remains unchanged.
- **Strategic Risk 4:** Treatment 1 has been completed and has become a control. Treatment 2 remains in progress. A third treatment has been added following the identification of a potential emerging risk at the last review.
- **Strategic Risk 5:** The treatment has now been completed.
- **Strategic Risk 6:** Remains unchanged.
- A new potential emerging risk was identified relating to the Strategic Planning Framework and the review of some key documents.

A full copy of the updated SRR is provided in Attachment 1.

Attachment 1

6. **REPORT AUTHORISERS**

Name	Title
Alex Brown	Manager Finance and Procurement
Nicola Tinning	General Manager, Business Support & Improvement

STRATEGIC RISK REGISTER

This Review – 24 April 2023 by:

- Peter Tsokas - Chief Executive Officer
- Megan Berghuis –General Manager City Services
- Nicola Tinning – General Manager Business Support and Improvement
- Claude Malak - General Manager City Development

Last Reviewed: February 2023 by:

Peter Tsokas
Megan Berghuis
Nicola Tinning
Claude Malak

Strategic Risk Register

1 Event Description: Failure to maintain financial sustainability			
Responsible Managers: CEO, EMT, CFO		Community Plan Theme: CIVIC LEADERSHIP & ECONOMIC PROSPERITY	
Negative Contributory Factors: <ul style="list-style-type: none"> Forecasting tools are not relevant or out of date Long Term Financial Plan is not maintained or not appropriate for business needs Financial resources to deliver required services are inadequate Financial capacity to meet service delivery demands Financial resources are not managed in line with treasury management policy Debt levels and debt management strategies are not in line adopted targets or are not sustainable Inadequate project management practices Impact of pandemic on local economy and Council's operating results over time Changes to market in cemetery operations (CPCA) Ambitious expectations of Council deliverables 		Risks: <ul style="list-style-type: none"> Financial Maladministration & Corruption Inability to delivery community expectations into the future Financial sustainability is compromised Reputational Damage Legislative Compliance (Financial) are not met Inter-generational equity is not achieved insufficient project funding Failure to deliver on plans and strategies Limitations to service delivery options Service level reduction Centennial Park Subsidiary becoming unviable Decision Making not aligned to Strategic Management Plans 	
Likelihood: Possible	Consequence: Major	Inherent Risk Rating: HIGH	
Existing Controls/Mitigating Practices: <ul style="list-style-type: none"> Endorsed Community Plan, Four Year Delivery Plan and Annual Operating Plans Comprehensive budget development process that meets legislative requirements (including cost estimates & consultation). Long Term Financial Plan in place with adopted financial targets; reviewed annually Adoption and application of the Better Practice Model – Internal Financial Controls Prudential Management Framework Project Management Framework Treasury Management Plan Owners Executive has been established and Board representation for Centennial Park Quarterly Reporting from subsidiaries to owner Councils Infrastructure & Asset Management Policy & Plans are linked to the long-term financial plan Quarterly budget review process Regular Financial reporting and budget monitoring Qualified and experience finance human resources Oversight from the Audit Committee External Audit Defined and agreed levels of service Development of an Annual Operating Plan which specifies core activities, service levels, and measures Continued corporate performance reporting Centennial Park Charter 			
Control Effectiveness:	Majority Effective	Risk Tolerance up to:	MEDIUM
Likelihood: Rare	Consequence: Major	Residual Risk Rating:	MEDIUM
Treatment Plan:	Responsibility:	Target Completion Date:	Comment
1. Development and Implementation of a revised Project Management Framework	<ul style="list-style-type: none"> GMCD 	<ul style="list-style-type: none"> Revised to June 2023 (Previously May 2023) 	Treatment Completed incorporated as control

Strategic Risk Register

2	Event Description: Inability to meet the needs and expectations of the community		
Responsible Managers: CEO, EMT, Managers		Community Plan Theme: COMMUNITY LIVING & CIVIC LEADERSHIP	
Negative Contributory Factors: <ul style="list-style-type: none"> Community Plan is out of date or not relevant Annual Business Plan and Budget process is not aligned with Community Plan and 4 Year Delivery Plan Resourcing is not aligned to 4 Year Delivery Plan Long Term Financial Plan is inadequate Conduct is inconsistent with Code of Conduct/ Values Systems and processes don't appropriately capture information regarding community needs Infrastructure & Asset Management Plans are inadequate Legislative movement of responsibilities Disengaged Elected Members Expectations of Elected Members lack of alignment with the Council role Four-year election cycles Increased cost pressures and delivery timeframes due to market conditions and inflation 		Risks: <ul style="list-style-type: none"> Dissatisfied community (public outrage) Reputational damage (negative media) Instability of staff (people leaving a negative environment) Organisational culture is significantly negatively affected Negative perception of performance of the Council (Elected Body) 	
Likelihood: Possible	Consequence: Major	Inherent Risk Rating:	HIGH
Existing Controls/Mitigating Practices: <ul style="list-style-type: none"> Community Plan 2033 Annual Business Plan and Budget 4-year Delivery Plan Annual Operating Plan Long Term Financial Plan Strategies, Policies and Procedures Infrastructure & Asset Management Plans Corporate Performance Report CEO KPIs Role Clarity Framework for service delivery Organisational culture and values Corporate Reporting Framework Role clarity and Position Descriptions aligned to service delivery Quarterly Reporting with inclusion of impacts to Strategic Objectives resulting from additional unplanned decisions of Council 		<ul style="list-style-type: none"> Consultation processes (YourSay, website, social media) Customer Experience Framework Customer Service Training Customer satisfaction surveys Customer Service Standards (external and internal) Community Engagement Framework and Policy Service Reviews Communication Channels Business Continuity Plan & Emergency Management Plan Regular Elected Member briefings, workshops and training Economic Development Strategy Customer Service Charter Principles (Achieve Together Project) Operational Risk Register Business Continuity Plan Quarterly Budget Review Process 	
Control Effectiveness:		Majority Effective	Risk Tolerance up to: MEDIUM
Likelihood: Rare	Consequence: Major	Residual Risk Rating:	MEDIUM
Treatment Plan:		Responsibility:	Target Completion Date:
1. Elected Members Behaviour Policy currently being developed to include risk to Council when factions exist.		• OCEO	• October 2023
			Comment
			New Treatment

Strategic Risk Register

3	Event Description: Ineffective decision making that lacks transparency		
Responsible Managers: CEO, EMT, Managers		Community Plan Theme: CIVIC LEADERSHIP	
Negative Contributory Factors: <ul style="list-style-type: none"> Inappropriate conduct of staff/Elected Members Inaccurate information Ill-informed decision makers Lack of role clarity and decision making (elected members) Deficient policies and procedures Noncompliance with legislative obligations/requirements Internal control failures Inappropriate delegations Lack of governance framework Lack of plans to respond to events that impact service delivery (from Risk 6) 		Risks: <ul style="list-style-type: none"> Reputational damage /risk (from risk 6 – to be deleted) Scrutiny by regulatory bodies (ICAC/Ombudsman) Financial impact/cost Loss of confidence in council Staff attraction and retention 	
Likelihood: Likely	Consequence: Catastrophic (Reputation)	Inherent Risk Rating:	HIGH
Existing Controls/Mitigating Practices: <ul style="list-style-type: none"> Legislative obligations (eg. Code of Conduct, Policies etc) External regulatory framework in place Policies and Procedures Delegation of Authority (Legislative and Financial) Elected Members briefings and workshops Expert advice provided by skilled staff Elected Members development program implemented to enhance role clarity Reinforce processes and education for Elected Member requests with staff 		<ul style="list-style-type: none"> Elected Members training programs Independent Members selection and training processes in place Agreed and Endorsed Meeting procedures Risk Management Framework Internal Controls Framework Reporting Quality Control Quality and experienced governance human resources Revised Caretaker Policy 	
Control Effectiveness:	Majority Effective	Risk Tolerance up to:	MEDIUM
Likelihood: Unlikely	Consequence: Catastrophic	Residual Risk Rating:	MEDIUM

Treatment Plan:	Responsibility:	Target Completion Date:	Comment
1. Delegation review and training (understanding roles, responsibilities, and delegation of authority)	<ul style="list-style-type: none"> OCEO 	<ul style="list-style-type: none"> November 2023 	The review of the delegations commenced in October. The completion date has been revised to November 2023 to allow the new Council to consider.

Strategic Risk Register

4	Event Description: Inability to manage legislative and regulatory compliance obligations		
Responsible Managers: CEO, EMT, Managers		Community Plan Theme: CIVIC LEADERSHIP	
Negative Contributory Factors: <ul style="list-style-type: none"> Other levels of government assigning new/different responsibilities Increasing compliance and reporting obligations Changing legislative obligations Local Government Reform agenda Not monitoring external environment and trends Reallocation of responsibilities via legislative changes Four Year election cycles 		Risks: <ul style="list-style-type: none"> Failure to meet compliance obligation Reputational damage Loss of confidence in Council ICAC investigation Unreasonable Customer expectations Negative Media exposure Financial Sustainability Negatively impact on service delivery & levels Negative impact on organisational culture 	
Likelihood: Possible	Consequence: Major	Inherent Risk Rating:	HIGH
Existing Controls/Mitigating Practices: <ul style="list-style-type: none"> Strategic Planning framework and documents (e.g. Community Plan, Annual Plan etc) Long Term Financial Plan/Annual Business Plan & Budget Policies and Procedures Internal Controls Risk management framework Delegations External liaison and relationship management 		<ul style="list-style-type: none"> Audit Committee External/Internal Audit Appropriately trained and experienced staff Access to suitably qualified service providers for support (e.g. legal advice) Access to LGA resources & opportunity to influence outcomes Collaboration between Councils ERA Preparation for LG Reform well underway 	
Control Effectiveness:	Majority Effective	Risk Tolerance up to:	MEDIUM
Likelihood: Possible	Consequence: Major	Residual Risk Rating:	HIGH
Treatment Plan:	Responsibility:	Target Completion Date:	Comment
Update:			
1. Preparation for LG Reform	• EMT	Completed	Treatment Completed incorporated as control.
2. Investigate development and implementation of Legislative Compliance Register	• OCEO	• November 2023	The Local Research and Development Fund has granted funding to the LGA for a project to develop a legislative compliance register. This work is progressing, and Unley will wait for a centrally developed register given the complexity associated with this project.
3. Relevant templates to be updated to include Strategic Plan link and Officer time.	• OCEO	• December 2023	New Treatment

Strategic Risk Register

5	Event Description	Workforce not appropriately skilled or engaged	
Responsible Managers: CEO, EMT, Managers		Community Plan Theme: CIVIC LEADERSHIP	
Negative Contributory Factors: <ul style="list-style-type: none"> inability to attract appropriate staff Inappropriately skilled staff Negative organisational culture Lack of contemporary working conditions Limited access to ongoing training and development No career progression opportunities Lack of workforce planning Job doesn't meet staff expectations Unsatisfactory relationship with Elected Members Poor recruitment practices Ineffective knowledge management Lack of appropriate staff turnover Out-dated systems and processes Pandemic related disruption and distraction 		Risks: <ul style="list-style-type: none"> Unnecessary high staff turnover Failure to deliver plans and strategies Community expectations not met Reputational damage Inability to retain the right staff / Loss of corporate knowledge 	
Likelihood: Possible	Consequence: Major	Inherent Risk Rating:	HIGH
Existing Controls/Mitigating Practices: <ul style="list-style-type: none"> Recruitment strategies and practices Well established brand Active management and development of organisational culture (OCI) Appropriate employment conditions Continuous Improvement Working from Home Framework Purpose statements for work areas that are aligned to organisation's purpose Digital Workplace through the Internet Calendar with key corporate processes and deadlines Continuous Improvement – training and suite of tools (learn on the job) 		<ul style="list-style-type: none"> Documented job descriptions documented and reviewed Corporate Values Development planning process (PDR) Review of PDR process Relevant resources and tools Digital Strategy and BS&S Capability Align the labour budget to reflect the priority areas determined by Council Recognition Guidelines Organisational structure reviewed On-line climate survey tool to provide regular interim measure between OCI surveys Internal Communications and latest news via emails, the intranet (Aquaria) and staff newsletter - the U 	
Control Effectiveness:	Majority Effective	Risk Tolerance up to:	MEDIUM
Likelihood: Unlikely	Consequence: Major	Residual Risk Rating:	MEDIUM
Treatment Plan:	Responsibility:	Target Completion Date:	Comment
1 Establish and implement an internal communication framework and plan that conveys what will be communicated, to who, when and how.	<ul style="list-style-type: none"> GMBSI 	<ul style="list-style-type: none"> June 2023 	Treatment Completed

Strategic Risk Register

6	Event Description: Inability to respond to climate change		
Responsible Managers: CEO, EMT		Community Plan Theme: ENVIRONMENTAL STEWARDSHIP	
Negative Contributory Factors ("root" causes / how and why the event arises): <ul style="list-style-type: none"> • Extreme weather events • Increased urban infill • State Government Planning Reforms • Increased waste production by the community 		Risks: <ul style="list-style-type: none"> • Canopy reduced – (out of Council's control) • Reputational impact – as community has strong 'green' focus • Heat-Island effect • Public Health implications and risks • Reduction in quality of life now and future • Increased costs to Council operations • Impact to local flora and fauna • Loss of enviable amenities • Loss of productivity of operations due to extreme weather events 	
Likelihood: Almost Certain	Consequence: Major	Inherent Risk Rating:	EXTREME
Existing Controls/Mitigating Practices: <ul style="list-style-type: none"> • Canopy Action Plan with budget allocation • Tree Strategy • Brown Hill Keswick Creek subsidiary & delivery of Stormwater Management Plan • Strategic Plan and objectives • Re-use water (dam and aquifer) • Long Term Financial Plan • Water Sensitive Urban Design practices • Waste Management and Resource Recovery plan • Public Health Plan • Asset Management Plans • Alternative Energy initiatives • Cycling and walking network • Climate & Energy Plan for Council Operations • ERA Resilient East Program • Waste Management Arrangement in place • Heatwave Action Plan in place 			
Control Effectiveness:	Majority Effective	Risk Tolerance up to:	MEDIUM
Likelihood: Unlikely	Consequence: Major	Residual Risk Rating:	MEDIUM
Treatment Plan:	Responsibility:	Target Completion Date:	Comment
	•		

Strategic Risk Register

Emerging Risks: *What keeps you awake at night??*

Description	Impacted Risk Events	Possible Treatment Plans
<p>The strategic planning framework is difficult to understand. Various strategic plans are out of date and the Community Plan is due for review.</p>	<ol style="list-style-type: none"> 1. Without update of plans, decisions might be made without the strategic intent or context. 2. Council may not meet the needs and expectations of the community. 	<ul style="list-style-type: none"> • The review of the framework and relevant plans will commence within the next 6 months.
		

Appendix

Definitions of Control Effectiveness Ratings	
<p>1. Ineffective</p>	<p>During the period, the control has not been implemented as described. Urgent management action is required to implement the described control processes.</p>
<p>2. Requires significant improvement</p>	<p>During the period, the control has been implemented as described, but with significant deficiencies in the consistency or effectiveness of implementation. Significant management action required to implement processes to improve the effectiveness of the control.</p>
<p>3. Partially effective</p>	<p>During the period, the control has been implemented as described, but with some deficiencies in the consistency and/or effectiveness in which it has been applied.</p>
<p>4. Majority effective</p>	<p>During the period, the control has been implemented as described and in the majority of cases has been consistently and/or effectively applied. There is potential to enhance the effectiveness of the control, but only with minor adjustments.</p>

INFORMATION REPORT

REPORT TITLE:	EXTERNAL AUDIT - PROGRESS OF AGREED ACTIONS FROM INTERIM REPORT AUGUST 2023
ITEM NUMBER:	2.3
DATE OF MEETING:	08 AUGUST 2023
AUTHOR:	MORGAN KRIS, TEAM LEADER - FINANCIAL ACCOUNTING
DIVISION:	BUSINESS SUPPORT AND IMPROVEMENT
ATTACHMENTS:	1. 2022-23 INTERIM MANAGEMENT LETTER

1. **PURPOSE**

This report provides the Audit Committee with an update on the progress of agreed management actions arising from the review of internal financial controls conducted by Council's External Auditors, Galpins, in March 2023 (the Interim Audit).

A summary of the findings and agreed actions from the Interim Audit are also provided for new Members of the Audit Committee.

2. **RECOMMENDATION**

That:

1. The report be received.
 2. The progress of management actions arising from the Interim Audit conducted by Council's External Auditors, Galpins, be noted.
-

3. **RELEVANT CORE STRATEGIES – FOUR YEAR DELIVERY PLAN**

4. Civic Leadership
 - 4.1 We have strong leadership and governance.
 - 4.3 Our business systems are effective and transparent.

4. **BACKGROUND**

In accordance with section 125 of the *Local Government Act 1999* (the Act), 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 assets, and to secure the accuracy and reliability of council records.

The Audit Committee has a responsibility under the Act and its Terms of Reference to review the adequacy of the accounting, financial internal controls, reporting and other financial management systems and practices of the Council on a regular basis.

As part of Council's 2022-23 external audit, the external auditors, Galpins, undertook an assessment of 100 internal financial controls and provided its findings in its 2022-23 Interim Management Letter, which is included in Attachment 1.

Attachment 1

Galpins, the External Auditors, reported in their 2022-23 Interim Management Letter (Attachment 1) that overall, the Council demonstrated a high level of compliance with the internal control framework consistent with the principles within the Better Practice Model.

As part of their interim audit, Galpins reviewed 100 internal financial controls. 96 controls were assessed as operating effectively, with only four controls requiring improvement. A summary of the findings of the review is provided in the table below.

Business cycles	Controls Reviewed	Operating Effectively				2023 Findings			
		2023	2022	2021	2020	H	M	L	BP
Purchasing & Procurement/Contracting	10	9	9	8	6	-	1	-	-
Fixed Assets	16	14	15	15	14	1	1	-	-
General Ledger	11	10	10	9	9	-	1	-	-
Accounts Payable	13	13	13	12	10	-	-	-	-
Credit Cards	5	5	4	3	5	-	-	-	-
Rates / Rates Rebates	10	10	10	10	8	-	-	-	-
Payroll	19	19	19	19	16	-	-	-	-
Receipting	5	5	5	5	4	-	-	-	-
Banking	5	5	5	5	5	-	-	-	-
Debtors	6	6	6	6	6	-	-	-	-
Total	100	96	96	92	83	1	3	-	-

The findings of the Interim Audit and proposed management actions were reported to the Audit Committee in May 2023.

5. **DISCUSSION**

Of the four (4) internal controls identified as requiring improvement, two (2) related to ongoing improvements that were identified and agreed upon last year. A summary and progress to date since May 2023 are provided in the following tables.

Business cycles	Findings	2023 Findings		
		Not Started	Work in Progress	Completed
Purchasing & Procurement/ Contracting (Moderate risk)	1	-	1	-
Fixed Assets (High risk)	1	-	1	-
Fixed Assets (Moderate risk)	1	-	1	-
General Ledger (Moderate risk)	1	-	-	1
Total	4	-	3	1

Finding No.	Finding	Management Action
2.1.1	<u>Purchasing & Procurement:</u> Absence of formal contracts and agreements for sample of suppliers	In progress The Procurement Team is presently reviewing all existing contracts to ensure an electronic copy is stored within Council's record management system, and with the document ID number recorded in the contract management system. The internal procedure to register all new contracts in the contract register and document management has recently been reviewed and implemented.
2.2.1	<u>Fixed Assets:</u> Assets requiring new revaluations to be performed this financial year to ensure they are revalued with sufficient regularity	In progress The revaluation of Roads, Kerbs and Open Space Assets are in the process of being finalised. The condition audits for buildings have been completed with draft revaluations for land and buildings received in late July. An internal review of the existing building valuations is presently underway and will be applied if the external valuations are not completed in time for the 2022-23 financial statements.
2.3.1	<u>Fixed Assets:</u> Assets included in Technology One are not linked and/or reconciled to the GIS system **Note: Finding from 2021-22	In progress As previously advised, the matching of assets in the Asset Management System to the GIS System has been and will continue to be an ongoing project until the current asset revaluation cycle is completed, presently due for completion in 2025-26.

2.4.1	<p><u>General Ledger:</u> A need to review certain allocations of users and profiles to key finance roles in Tech One</p> <p>**Note: Finding from 2021-22</p>	<p>Completed</p> <p>The review and testing of the new system administration structure was completed following the Interim Audit and implemented in April 2022. The allocation review was reviewed in in 2022 and management deems that the access allocation is appropriate, and therefore no further work will be done.</p> <p><u>Afternote:</u> The system administration structure will continue to be reviewed in the next 6 months of the “Procure to Payment” project.</p>
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Further details regarding the findings are included in Attachment 1.

Attachment 1

An update on the progress of the agreed management actions from the interim audit will be provided at the first meeting of the Audit Committee scheduled in 2024.

6. REPORT AUTHORISERS

Name	Title
Alex Brown	Manager Finance and Procurement
Nicola Tinning	General Manager, Business Support & Improvement

Galpins

Accountants, Auditors & Business Consultants

Financial Controls Review

The City of Unley

2022/23 Interim Management Letter



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Table of Contents

1. EXECUTIVE SUMMARY	3
1.1 Background	3
1.2 Objectives and scope	3
1.3 Category of findings.....	5
1.4 Overall review of the council’s internal controls.....	6
1.5. Summary of findings.....	7
2. DETAILED AUDIT FINDINGS	8
2.1 PURCHASING AND PROCUREMENT	8
2.2 FIXED ASSETS.....	9
2.3 GENERAL LEDGER.....	13
APPENDIX 1 – CRITICAL INTERNAL FINANCIAL CONTROLS	15



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.

In addition to an opinion on the financial statements, section 129 of the Local Government Act 1999 requires auditors to provide an opinion regarding internal controls of councils. This opinion focuses on council's 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.

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
- Credit Cards
- Rates / Rates Rebates
- Payroll
- Receipting
- 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 2022/23 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
High Risk Weaknesses	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.
Moderate Weaknesses	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.
Low Risk Weaknesses	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.
Better Practice Weaknesses	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 found that the majority of key internal controls reviewed were in place and were operating effectively (96 out of 100 core controls reviewed). Audit notes and commends Council on the significant progress made in achieving continuous improvement of the internal financial controls since our first audit in 2019.

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					2023 Findings			
		2023	2022	2021	2020	2019	H	M	L	BP
Purchasing & Procurement/Contracting	10	9	9	8	6	3	-	1	-	-
Fixed Assets	16	14	15	15	14	13	1	1	-	-
General Ledger	11	10	10	9	9	9	-	1	-	-
Accounts Payable	13	13	13	12	10	10	-	-	-	-
Credit Cards	5	5	4	3	5	5	-	-	-	-
Rates / Rates Rebates	10	10	10	10	8	8	-	-	-	-
Payroll	19	19	19	19	16	15	-	-	-	-
Receipting	5	5	5	5	4	4	-	-	-	-
Banking	5	5	5	5	5	5	-	-	-	-
Debtors	6	6	6	6	6	6	-	-	-	-
Total	100	96	96	92	83	78	1	3	-	-

We recommend that Council prioritises the high and moderate risk findings, 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.



1.5. Summary of findings

Business Cycle	Findings	Risk
Purch./Procur./Contracting	2.1.1 Absence of formal contracts and agreements for sample of suppliers	M
Fixed Assets	2.2.1 Assets requiring new revaluations to be performed this financial year to ensure they are revalued with sufficient regularity	H
	2.2.2 Assets included in Technology One are not linked and/or reconciled to the GIS system	M
General Ledger	2.3.1 A need to review certain allocations of users and profiles to key finance roles in Tech One	M
Credit cards	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act	N/A
Accounts payable	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act	N/A
Rates	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act	N/A
Payroll	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act	N/A
Receipting	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act	N/A
Banking	Audit did not find any issue that would represent a risk of non-compliance with s125 of the Local Government Act	N/A
Debtors	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 formal contracts and arrangements for a sample of suppliers		Moderate
Control	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.	
Risk	Council does not obtain value for money in its purchasing and procurement.	

Finding	Recommendations	Management Response
Audited selected suppliers for review based on cumulative spend. Council could not locate in its records a signed contract for Nuago Pty Ltd (server maintenance and other IT services). In 2022/23 the total cumulative spend was \$119,310.	Council ensures that there are formal agreements in place with suppliers with significant cumulative spend, and that works are not commenced prior to signing contracts.	<p>The Procurement Team is presently reviewing all existing contracts to ensure an electronic copy is stored within Council’s record management system, and with the document id number recorded in the contract management system. Commenced. Scheduled completion July 2023</p> <p>The internal procedure to register all new contracts in the contract register and document management has recently been reviewed. Completed</p>

2.2 FIXED ASSETS

2.2.1 Assets requiring new revaluations to be performed this financial year to ensure they are revalued with sufficient regularity

High Risk

Control	Relevant staff review useful lives, residuals, valuations, depreciation methodology and test for impairment to ensure that methods used are still appropriate and significant changes are incorporated into Asset Management Plans.
Risk	Fixed Assets are not valued correctly initially or on subsequent revaluation.

Finding	Recommendations	Management Response
<p>The most recent external revaluation of asset classes occurred on the following dates (as per the 2021/22 financial report):</p> <ul style="list-style-type: none"> - Buildings and other structures – 30 June 2018 - Roads, kerbs and gutter – 1 July 2017 - Pathways – 1 July 2019 - Drainage / recycled water – 30 June 2021 - Traffic and lighting – 1 July 2019 - Bridges – 30 June 2021 - Other assets (open space and reserve equipment) – 30 June 2017 <p>Accounting standards require assets using the revaluation model to be revalued with sufficient regularity to avoid material misstatement. Common practice in local government is for assets to have a full revaluation every 3-5 years. As can be seen above, there are some asset classes requiring revaluations to be performed during the 2022/23 financial to ensure that they are revalued with sufficient regularity (more specifically, 'buildings and other structures', 'roads, kerbs and gutter' and 'other assets').</p> <p>Audit made enquiries on the progress of these revaluations and noted</p>	<p>Audit recommends Council proceeds with the current revaluation process for roads, kerbs and gutter and other assets to ensure the results of these revaluations are accounted for in the 2022/23 financial report.</p> <p>To ensure that buildings and other structures are not materially misstated in the 2022/23 financial report, audit recommends the following:</p> <ol style="list-style-type: none"> 1. Ensure that buildings and other structure revaluations are completed by an external valuer, and the results of this revaluation recorded in the 2022/23 financial report; <p>Or (if option 1 is not possible)</p> <ol style="list-style-type: none"> 2. Perform internal reviews of the current condition assessment and existing unit rates assigned to buildings and other structures, 	<p>Noted</p> <p>The revaluation of Roads, Kerbs and Open Space Assets have been prepared and are presently being reviewed prior to adoption.</p> <p>The condition audits for buildings have been completed with the revaluation of land and buildings is due to commence in May. An internal review of the existing valuations is presently underway, and will be applied if the external valuations are not completed in time for the 2022-23 financial statements.</p>



<p>the following:</p> <ul style="list-style-type: none"> - Buildings – a condition assessment has already been performed and this will be incorporated into the next revaluation process. Council is currently determining the best procurement approach to be adopted to engage an external valuer to perform a revaluation of buildings and other structures, and are hopeful that this can be undertaken in time for the 2022/23 financial report. - Roads, kerbs and gutter – the revaluation of these assets has been completed and will be recorded in the 2022/23 financial report. - Other assets – the revaluation of these assets is currently in progress and will be recorded in the 2022/23 financial report. <p>Audit understands the revaluation process for buildings and other structures may be potentially delayed and may potentially add additional pressures on the timing of completion and preparation of the 2022/23 financial report.</p> <p>Audit is of the view that if a revaluation is not performed and recorded in the 2022/23 financial report, the current valuation of buildings and other structures will likely be materially misstated as the last revaluation was performed 5 years ago on 30 June 2018, and there has been no indexation of values since that time.</p> <p>This creates the potential for a qualification in our auditor’s report if a revaluation is not performed and recorded in the 2022/23 financial report. Audit has met with management to discuss this risk, and have provided feedback for steps Council can take to avoid a qualification should delays in the valuation eventuate. These are summarized in our recommendation.</p>	<p>and process any necessary adjustments in to ensure these assets are not materially misstated on 30 June 2023. This can be achieved as follows:</p> <ul style="list-style-type: none"> a. Condition assessment – compare the results of the current condition assessment performed with existing condition ratings within the asset register. Consider whether remaining useful lives recorded in the asset register remain reliable in light of this comparison. <p>If no material differences in the remaining useful lives are found, then simply perform a review of unit rates (see item ‘b’ below).</p> <p>If material differences are found, adjust the useful and remaining lives of buildings and other structures in the asset register, and recalculate the accumulated depreciation of buildings based on new replacement costs determined from the review of the unit rates (see item ‘b’ below).</p> <ul style="list-style-type: none"> b. Review of unit rates – perform a review of unit rates assigned to different components of buildings. Examples of approaches to the review of unit rates performed in the local government sector include: 	
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	<ul style="list-style-type: none"> - indexation of unit rates based on industry indexes such as the Local Government Price Index (more commonly used) or the Australia Bureau of Statistics Times Series Data (Construction Industries) - determination of unit rates based on recent Council contracts in place - engagement of an external party to review unit rates - comparison of unit rates against industry guides, such as the Rawlinsons Construction Cost Guide. 	
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2.2.2 Assets included in TechnologyOne are not linked and/or reconciled to the GIS system.

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>Assets included in TechnologyOne are not linked and/or reconciled to the GIS system.</p> <p>Councils are highly asset intensive in delivering services to rate payers. Councils' infrastructure assets are widespread and require a strong geographical inventory to manage and monitor effectively.</p> <p>A Geographic Information System (GIS software) is designed to store, retrieve, manage, display and analyse geographic and spatial data, including geographical features and their characteristics.</p> <p>To ensure accuracy and completeness of asset databases, it is important for Councils to perform a reconciliation between GIS systems and the asset register. The reconciliation ensures that all assets, components of assets and modifications to assets captured by the GIS system are reflected in the asset register.</p> <p>The standard TechnologyOne GIS reconciliation functionality can be used to update the physical features of assets in the asset register.</p>	<p>A process is introduced to ensure that all assets included in TechnologyOne are linked and/or reconciled to the GIS system.</p>	<p>Noted</p> <p>As previously advised, the matching of assets in the Asset Management System to the GIS System has been and will continue to be an ongoing project until the current asset revaluation cycle is completed, presently due for completion in 2025-26.</p>



2.3 GENERAL LEDGER

2.3.1 A need to review certain allocations of users and profiles to key finance roles in Tech One

Moderate

Control

Access to General Ledger maintenance is restricted to appropriately authorised personnel.

Risk

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

Finding	Recommendations	Management Response
<p>We have reported in past financial years that there were no mechanisms to ensure a complete list of users with access to finance functions in Tech One are formally reviewed on a regular basis.</p> <p>Our follow up of this matter performed during the 2022/23 revealed that Management implemented appropriate mechanisms to review the appropriateness of users with access to finance functions in TechOne. Management currently reviews lists and reports detailing:</p> <ul style="list-style-type: none"> • active users and active profiles created in TechOne • the users allocated to each profile created in TechOne • roles allocated to each profile created in TechOne <p>Audit performed a review of profiles and users (not mentioned below for confidentiality reasons) with access to key modules in TechOne and noted the following access allocations. Management may consider some of these roles to have users assigned who may not require access to perform their duties:</p> <ul style="list-style-type: none"> • role: System Administrators – 5 profiles – Finance Business Partner / Financial Accountant / Manager Finance and Procurement / Team Leader Financial Accounting / Web Services User • role: GL Officer – 16 profiles – Applications Project Officer / Business Systems Support Officer / Finance System Analyst / 	<p>Finance Management assesses whether the roles allocated to the profiles listed in the finding currently pose any risk to the business.</p> <p>Finance Management performs a formal review of a list of users with access to key finance modules in TechOne to ensure adequate segregation of duties in the finance system.</p> <p>Key areas of access that should be considered in this review include:</p> <ul style="list-style-type: none"> - Administrator Access to All Systems - Banking - Rates - Creditors - Debtors - Payroll - General Ledger. 	<p>Noted</p> <p>The review and testing of the new system administration structure was completed following the Interim Audit and implemented in April 2022. The allocation review was reviewed in 2022 and management deems that the access allocation is appropriate.</p>



<p>Finance Business Partner / Financial Accountant / IT Support Officer / KCAUL / Manager Business Systems and Solutions / Manager Finance and Procurement / Payroll Officer / People and Culture Administrator / Senior Coordinator Rates / Spatial Business & Intelligence Analyst / Team Leader Financial Accounting / Technology Services Coordinator / Technology Support Analyst</p> <ul style="list-style-type: none"> • role: Asset Officer – 9 profiles – Asset Management Officer / Coordinator Open Space / Finance Business Partner / Financial Accountant / General Manager City Development / Manager Assets and Operations / Manager Finance and Procurement / Senior Assets and Engineering Lead / Team Leader Financial Accountant • role: AP Officer – 6 profiles – Administration Officer Operations / Creditors Officer / Customer Experience Officer / Finance Business Partner / Financial Accountant / Team Leader Financial Accountant <p>Audit acknowledges that Management may consider some of the above access rights to be appropriate. The purpose of listing them here is to recommend that Management reviews and formally considers the access rights described above when next performing a formal review of a complete list of IT users' access rights.</p>		
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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

INFORMATION REPORT

REPORT TITLE:	INTERNAL AUDIT REPORT - PROPERTY LEASES AND LICENCES (JUNE 2023)
ITEM NUMBER:	2.4
DATE OF MEETING:	08 AUGUST 2023
AUTHOR:	JIM PHILLIPS, PRINCIPAL RISK MANAGEMENT OFFICER
DIVISION:	BUSINESS SUPPORT AND IMPROVEMENT
ATTACHMENTS:	1. INTERNAL AUDIT PROPERTY LEASES AND LICENCES

1. **PURPOSE**

This report provides the results of the recently completed internal audit of Property Leases and Licences. The audit focused on the billing and discounts for leases and licences, and record management for the associated contracts.

This planned audit was approved by the Audit Committee in March 2023 as part of the 2023 Internal Audit Workplan.

2. **RECOMMENDATION**

That:

1. The report be received.
-

3. **RELEVANT CORE STRATEGIES – FOUR YEAR DELIVERY PLAN**

4. Civic Leadership

4.1 We have strong leadership and governance.

4.3 Our business systems are effective and transparent.

4. **BACKGROUND**

The provision of sustainable management and maintenance of Council's buildings and property portfolio, including the management of property related leases and licences, is an important function within the Asset Management Team (AMT).

The AMT are responsible for liaising with the Accounts Receivable function, in the Finance and Procurement Team (FPT), to ensure that:

1. The billing and discounts for leases and licences are in accordance with lease agreements; and
2. Records associated with leases and licences contracts are appropriately maintained.

5. **DISCUSSION**

Objective and Scope

The objective of the internal audit project was to assess the effectiveness of key processes, procedures and controls in relation to fee billing and record keeping for property leases and licences, and how the City of Unley manages key risks associated with these processes.

The specific scope of the review included assessing:

- The adequacy and effectiveness of the procedures for billing fees and applying discounts for leases and licences;
- The fees issued, and discounts applied, are in accordance with leasing agreements; and
- The appropriate maintenance of records related to leases and licences contracts and billing.

The scope of this internal audit focused on a sample of leases and licenses and their contractual arrangements to assess the appropriate billing and discounting arrangements are in place. The City of Unley has two residential properties which it leases through a local real estate agency, and these were not included in this review.

Findings

Based on the testing undertaken, and evidence collated and reviewed during this audit project, a reasonable level of assurance can be given regarding the overall adequacy and effectiveness of the controls applied to the allocation, maintenance and billing of leases and licences managed by the City of Unley.

There were three key improvement opportunities and recommendations outlined in the attached report as follows:

1. That the Administration reports on activities related to Leasing and Licencing of property to Council on a quarterly basis and this be included as part of the Quarterly Corporate Performance Reporting.
2. That the Property Services Coordinator calculates the rent and makes a recommendation of rent to the Finance Business Partner for approval prior to the signing of the lease/licence or renewal.
3. That the key to the key safe, containing the keys to the document safe, be found, or a locksmith engaged to re-key the lock on the key safe.

Management agreed with these recommendations and has set target dates for the agreed actions.

The progress of agreed actions will be reported twice a year, with the next update scheduled in October 2023.

Full details of the report are contained in Attachment 1.

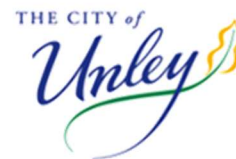
Attachment 1

6. REPORT AUTHORISERS

Name	Title
Alex Brown	Manager Finance and Procurement
Nicola Tinning	General Manager, Business Support & Improvement

Internal Audit Report

Property Leases and Licences



Audit Background and Authority

The provision of sustainable management and maintenance of Council's buildings and property portfolio, including the management of property related leases and licences, is an important function within the Asset Management Team (AMT).

The AMT are responsible for liaising with the Accounts Receivable function, in the Finance and Procurement Team (FPT) to ensure that:

1. The billing and discounts for leases and licences are in accordance with lease agreements; and
2. Records associated with leases and licences contracts are appropriately maintained.

This is a planned audit approved by the Audit Committee at its meeting on 28 March 2023.

Scope and Objectives

The objective of the internal audit project is to assess the effectiveness of key processes, procedures and controls in relation to fee billing and record keeping for property leases and licences, and how the City of Unley manages key risks associated with these processes.

The specific scope of this review included assessing:

- The adequacy and effectiveness of the procedures for billing fees and apply discounts for leases and licences;
- The fees issued, and discounts applied, are in accordance with leasing agreements; and
- The appropriate maintenance of records related to leases and licences contracts and billing.

The scope of this internal audit focused on a sample of leases and licenses and their contractual arrangements to assess the appropriate billing and discounting arrangements are in place. The City of Unley has two residential properties which it leases through a local real estate agency, these were not included in this review.

Audit Observations and Findings

The City of Unley has a total of 42 leases or licences. A random sample of 21 were chosen to review for this audit. The list of lease or licences sampled are contained in Appendix A.

Based on the documentation reviewed, the property leases and licences are a well-managed aspect of the City of Unley's activities. However, the business is heavily reliant on the Property Services Coordinator's corporate knowledge and the knowledge of her manager Coordinator Property and Facilities. Both people will have left the organisation by the end of the financial year. This loss of corporate knowledge poses some risks for the Asset Management Team.

The Property Services Coordinator maintained an up-to-date register of property leases and licences. The definition of a lease and a licence is provided in the City of Unley, Property Management Policy (ECM2167028) clause 5.1.1 Definition:

“A lease or licence is defined as any rental or licenced use agreement whereby Council allows any of its properties, in whole or part, to be used regularly for in excess of 6 months by any organisation.

Leasing refers to the exclusive use of a property or facility by a group whilst licencing relates to shared use of property or facility”.

For example, the Sturt Football Club leases the Unley Oval clubrooms but has a licence for the use of the Oval as shared community space.

All of the leases and licences are stored and readily accessible in the City of Unley's records management system - ECM.

Building Assets of Council

There are two categories of assets considered within the Council's Property Management Policy:

- *Civic, Community and recreation assets* – such as libraries, community centres, cultural development centres or sporting facilities such as tennis courts, bowling clubs, ovals etc., and
- *Commercial assets* – offices, retail shops, residential properties that have been acquired for the purpose of achieving a strategic community or economic objective.

Assessment Procedures

The City of Unley recognises three distinct types of organisations when considering leasing or licencing:

- *Local community* – services and activities focused on the Unley community,
- *State-wide / peak body* – community services provided across South Australia, perhaps as a 'peak body", and
- *Commercial* – income generation as the main foci

Of the 21 leases reviewed:

- 12 are local community organisations,
- 6 are semi commercial,
- 1 is a peak body, and
- 2 are others.

The two anomalies to the policy are noted, specifically:

1. A ground lease which is a strip of land that backs on to the City of Unley Depot at 75 King William Road. During the construction of the block of units, at the rear of the Depot, the developer encroached on to a right of way. This ground is leased back to the tenant for a nominal fee per annum.
2. A public toilet leased to the City of Unley and is owned H Simone Investments Pty Ltd.

Authorisation

Responsibility for authorisation to enter a leasing arrangement is not explicitly spelt out in the Property Management Policy. However, under section 4 *Roles and Responsibilities*, the Policy states:

“This policy will be administered on behalf of Council by:

- *General Manager, City Development*
- *Manager, Assets and Operations*
- *Senior Assets and Engineering Lead*
- *Coordinator Property and Facilities*

Further under section 5.5.2 second dot point

- *“If the tenant and Administration agree on all terms and conditions of the proposed Lease or Licence, the Administration has the delegated authority to formalise the Agreement”*

From these clauses in the Policy, it is reasonable to conclude the intent that any of the four positions mentioned above have the authority to enter a lease or licence on behalf of Council. Of the 21 leases reviewed, 19 were signed by either the Mayor or the Chief Executive Officer. One was a letter of continuance signed by the Property Services Coordinator.

Another agreement was established in 1927 for a 99-year lease, approved by Messer Langley and Phillips *“both of Glen Osmond Gentleman”*. The lease was for 1 shilling per year paid in advance – 4 pounds 19 shillings. This property is leased to the Glen Osmond Scouts.

Based on the records reviewed, a high level of assurance can be provided that the leases and licences are approved by the appropriate authority. However, regular reporting to Council is not consistent with the Policy. Details of reporting are outlined in Appendix B Improvement Opportunity 1.

Lease and Licence Fees

Lease and licence fees are established as a percentage of the assessed Capital Replacement Value of the property. Council updates property replacement values every five years, therefore the appropriate rental figure is assessed as:

- Year 0 - % of valuation
- Years 1-4 Valuation plus cumulative CPI¹
- Year 5 - % of valuation

The following is used to determine the lease and licence fees applicable (Property Management Policy clause 5.6.2):

- Local community shall be fixed at 1% of the Capital Replacement Value
- State-wide /peak body shall be fixed at 3% of the Capital Replacement Value
- Semi Commercial / Community shall be fixed at 8% of the Capital Replacement Value (or assessed market rate if a new tenancy)
- The minimum fee levied will be \$750 per annum
- GST shall be applied to all lease and licence fees.

During the audit process, Finance conducted a review of all the lease and licence rents. Of the 21 leases and licences considered as part of this audit, 14 were correctly charged and 7 required some form of adjustment.

Details of the process for setting and maintaining rents are outlined in Appendix B Improvement Opportunity 2.

¹ CPI – Consumer Price Index

Maintenance Responsibilities

Each lease spells out key responsibilities of both parties. As the leases have been renewed the level of detail in relation to maintenance responsibilities has increased in clarity. Many of the leases are consistent, and have the key items recorded in the first and second schedules of the agreement.

Access to Records

Information provided by the Property Services Coordinator and the Senior Assets and Engineering Lead enabled simple access to records through the City of Unley’s records management system ECM.

Once leases/licences have been signed, the original is forwarded to the Information Management Team where it is scanned into ECM and the original filed in a fireproof locked safe. The process of extracting files was observed and utilising the ECM reference number the nominated files were easily extracted from the safe.

Access to the key-safe that holds the keys for the safe requires improvement. This improvement opportunity is detailed in Appendix B Improvement Opportunity 3

Details of the findings arising from this audit are provided in *Appendix B*, along with recommendations to address the improvement opportunities and control weaknesses identified. The findings have also been assessed against the City of Unley Risk Matrix, based on Internal Audit’s assessment of the likelihood and consequence of remedial action not being taken, and are summarised in the following table:

	Likelihood Ratings				
Consequence	Rare	Unlikely	Possible	Likely	Almost Certain
Catastrophic	Medium	Medium	High	High	Extreme
Major	Medium	Medium	High	High	Extreme
Moderate	Low	Medium	#3	#1	High
Minor	Low	Low	Medium	#2	High
Insignificant	Low	Low	Low	Medium	Medium

Conclusion

Based on the testing undertaken, and evidence collated and reviewed during this audit project, a reasonable level of assurance can be given regarding the overall adequacy and effectiveness of the controls applied to the allocation, maintenance and billing of leases and licences managed by the City of Unley.

This audit activity was undertaken by Jim Phillips, Principal Risk Management Officer and the assistance and cooperation of business staff during the performance of this audit, is both acknowledged and appreciated.

Appendix A

Reviewed Lease and Licence Sample					
ECM Number	Lessee	Address	Authorised By	How is rent increase calculated	Maintenance Responsibilities Defined
2847090	Unley Sports Club Inc	8 Northgate Street Unley Park	Mayor and CEO	Deed	Yes
2813307	Optus Networks Pty Ltd	671 South Road Black Forest	Mayor and CEO	Annual CPI	Yes
8881345	Millswood Croquet Club Inc	20d Millswood Crescent Millswood	CEO and Alan Johns	Annual CPI	Yes
8045130	B&M Building Pty Ltd	Charles Lane Right of Way Unley	CEO and Alan Johns	Annual CPI	Yes
7956244	Dr&Mrs Carapetis Owners 4 Cleland Avenue Unley	Rear 75 King William Road Unley	CEO and Alan Johns		Yes
3018472 3018457	Glen Osmond Scouts	Barr-Smith Road Myrtle Bank	Agreement made in 1927	1 Shilling/ year paid in advance meaning 4 pounds 19 shillings	Yes
8146396	Tennis SA Inc	15 Chelmsford Avenue Millswood	CEO and Alan Johns	Increase annually by \$1,096.25 +GST	Yes
7896053/7896047	Unley Community Sports Club Inc	39 Oxford Terrace Unley	Alana Faber Continuance Letter	Annual CPI	No
8781062	The Adelaide Potters' Club Inc	84 Edmund Avenue Unley	CEO and Alan Johns	Annual CPI	Yes
4741430 7855916	Beyond Stone Pty Ltd	shop3, 71-73 King William Road Unley	CEO and Lara Kennedy	4% Flat increase annually	Yes
4798572 8632155	Millswood Bowling Club Inc	20a Millswood Crescent Millswood	CEO and Alan Johns	Annual CPI	Yes
4782903 8144503 8145252	Fairmont Tennis Club Inc	360a Cross Rad Clarence Park	Mayor and CEO	Annual CPI	Yes
8641777	The Forestville Hockey Club Inc	1 Chelmsford Avenue Millswood	CEO and Alan Johns	Annual CPI	Yes
4821988 8341615	The Sturt Bowling Club Inc	Trimmer Terrace Unley	CEO and Alan Johns	\$548.23 per annum	Yes

Reviewed Lease and Licence Sample (continued)					
ECM Number	Lessee	Address	Authorised By	How is rent increase calculated	Maintenance Responsibilities Defined
8437457	Aaron Blee Scott	Shop 1, 71-73 King William Road Unley	CEO and Lara Kennedy	Annual CPI	Yes
8146380	Women & Children's Health Network Inc	411a Fullerton Road Fullerton	CEO and Alan Johns	Annual CPI	Yes
8881455	Forestree Australia Pty Ltd	78 Edmund Avenue Unley	CEO and Alan Johns	One year lease	Yes
8500353	Hyde Park Laser & Skincare Clinic	Shop 2, 71-73 King William Road Unley	CEO and Lara Kennedy	Lease document fixed amount annually	Yes
4849610	Sturt Football Club Inc	Trimmer Terrace Unlty	CEO and Alan Johns	2019 Holding over monthly rental increase via CPI + GST	Yes
	H Simone Investments Pty Ltd	Walter Street Hyde Park	Mayor and City Manager	Annual CPI	Yes
	Goodwood Saints Football Club	1 Chelmsford Avenue Millswood	CEO and Alan Johns	Increase annually +CPI + \$590 (+GST)	Yes

	Ground Lease
	Lease
	Licence

Appendix B: Audit Findings and Improvement Opportunities

PROPERTY LEASES AND LICENCES REVIEW			ECM# ref
Finding/Improvement opportunity No:			1.0
Control Description			
Monitoring and Reporting			
The Property Management Policy requires quarterly reports to Council on the renewal/new leases, whereby the Administration agrees the condition of lease/licence with the lessee			
Control Reference:	Property Management Policy	Control Effectiveness Assessment:	Partially effective
Finding / Improvement Opportunity Description			
Reporting			
<ul style="list-style-type: none"> The Property Management Policy clause 5.5.2 dot point 2 & 3 states: <ul style="list-style-type: none"> "If the tenant and the Administration agree on all terms and conditions of the proposed Lease or Licence, the Administration has the delegated authority to formalise the Agreement. Details of all Leases and Licences formalised under the delegation shall be reported to Council on a quarterly basis." A review of the last 17 months Council Reports from "InfoCouncil" (1 January 2022 – 5 June 2023) <i>Quarterly Business Performance Reports</i>, fails to reveal any reporting of new or renewal of leases or licences from the Administration to Council. 			
Monitoring			
<ul style="list-style-type: none"> Monitoring the end of leases/licences is a manual process and relies on the Property Services Coordinator remembering when leases are due for renewal. The person in this role has now left the organisation. The Coordinator Property and Facilities will also be leaving by the end of June. The lack of systematic monitoring of the end of leases combined with the loss of corporate knowledge present some risks for this Council function. 			
Potential Implication and Assessed Risk Level			
The lack of systematic monitoring, loss of corporate knowledge and failure to report to Council on a regular basis could combine for the organisation to lose track of its' assets, loss of rental income and potential damage to the Council's reputation.			
Likelihood:	Likely	Consequence:	Moderate
Assessment:	High		
Recommendation			
1.1	That Administration reports on activities related to Leasing and Licencing of property to Council on a quarterly basis and this be included as part of the Quarterly Corporate Performance Reporting.		
1.2	That Finance and Information Technology explore potential opportunities to electronically monitor end of lease dates.		

Management Action / Treatment		
1.1	<p>Management agreed with this recommendation and will include information in each Quarterly Corporate Performance Report.</p> <p>Target Date 12 July 2023</p> <p>Responsible Officer: Claude Malak</p>	
1.2	<p>Management agreed to explore this opportunity. An interim solution (a) will be adopted by the end of September 2023 to monitor expiry dates while a long term solution (b) is considered as part of the development of the contract management system.</p> <p>Target Date: (a) 30 September 2023, (b) 30 June 2024</p> <p>Responsible Officer: Manager Finance and Procurement</p>	
Status and Progress on Implementation of Management Action / Treatment		
Date:	Status:	Update:

PROPERTY LEASES AND LICENCES REVIEW			ECM# ref
Finding/Improvement opportunity No:			2.0
Control Description			
Rent Calculation			
Rent amounts are based on updated Capital Replacement Value of the property as defined in the policy.			
Control Reference:	Property Management Policy	Control Effectiveness Assessment:	Partially effective
Finding / Improvement Opportunity Description			
<ul style="list-style-type: none"> The Property Management Policy states that Lease and licence fees are established as a percentage of the assessed Capital Replacement Value of the property. Council updates property replacement values every 5 years, therefore the appropriate rental figure is assessed as: <ul style="list-style-type: none"> Year 0 - % of valuation Years 1-4 Valuation plus cumulative CPI Year 5 - % of valuation The following is used to determine the lease and licence fees applicable: <ul style="list-style-type: none"> Local community shall be fixed at 1% of the Capital Replacement Value State-wide /peak body shall be fixed at 3% of the Capital Replacement Value Semi Commercial / Community shall be fixed at 8% of the Capital Replacement Value (or assessed market rate if a new tenancy) The minimum fee levied will be \$750 per annum GST shall be applied to all lease and licence fees. During the audit process, Finance conducted a review of all the lease and licence rents. Of the 21 leases and licences considered as part of this audit, 14 were correctly charged and 7 required some form of adjustment. Of the leases/licences audited 33% required some form of adjustment. (2 required updating in debtors, 3 were overcharged requiring a credit, 2 were under charged) The Property Services Coordinator is responsible for calculating rents and renewing leases after which they inform Finance. Finance is responsible for invoicing the organisation at the right time in the rent cycle. The rent setting process is manual and there is no process for checking that the rent calculation is correct. 			
Potential Implication and Assessed Risk Level			
With no checking of the rent calculation, it is possible that the rent charged could be wrong resulting significant over or under payment leading to lack of trust in the City of Unley on behalf of community organisations.			
Likelihood:	Likely	Consequence:	Minor
		Assessment:	Medium
Recommendation			
2.1	That the Property Services Coordinator calculates the rent and makes a recommendation of rent to the Finance Business Partner for approval prior to the signing of the lease/licence or renewal.		

Management Action / Treatment		
2.1	Management Agreed. Claude to speak with Alex Brown (Manager Finance and Procurement) to recommend the most appropriate person to support the Property Services Coordinator with this task. Target Date: 31 August 2023 Responsible Officer: Claude Malak	
Status and Progress on Implementation of Management Action / Treatment		
Date:	Status:	Update:

PROPERTY LEASES AND LICENCES REVIEW		ECM# ref	
Finding/Improvement opportunity No:		3.0	
Control Description			
<p>Records Storage Official leases and contracts are stored in secure repository, readily accessible to appropriately authorised staff.</p> <p>Access Controls Appropriate controls have been implemented which ensure only currently authorised staff have access to leases and licences.</p>			
Control Reference:	Audit Test Plan	Control Effectiveness Assessment:	Mostly Effective
Finding / Improvement Opportunity Description			
<ul style="list-style-type: none"> Once leases or licences have been signed the hardcopy is forwarded to the Information Management team for scanning and safe storage. Using an example ECM number from the sample, the original documents were easily able to be accessed. The safe key is stored in a lockable key-safe attached to the wall hidden behind some boxes in a closed cupboard in the Information Management Team Area. The Team Leader said only Information Management staff had access to the key. However, it was not clear where the key to the key-safe was. The Team Leader said it had never been locked in all the time she had been at City of Unley. While the controls in place are mostly adequate the fact that there is no key to the lockable key-safe means that if a person knew where the key-safe was, they would be able access the key for the safe. 			
Potential Implication and Assessed Risk Level			
With the key safe not lockable it is possible anyone could access the key to the safe and therefore any of the contents.			
Likelihood:	Possible	Consequence:	Moderate
		Assessment:	Medium
Recommendation			
3.1	That the key to the key safe be found or a locksmith arranged to re-key the lock on the key-safe		
3.2	Team Leader, Information Management be responsible for the safe keeping of the key to the key-safe.		
Management Action / Treatment			
3..1&2	Management Agreed. Jim Phillips to provide copy of this management action to James Roberts, Manager Business Systems and Support. Target Date: 31 August 2023 Responsible Officer: James Roberts		
Status and Progress on Implementation of Management Action / Treatment			
Date:	Status:	Update:	

INFORMATION REPORT

REPORT TITLE:	INTERNAL AUDIT REPORT - REGULATORY SERVICES (JULY 2023)
ITEM NUMBER:	2.5
DATE OF MEETING:	08 AUGUST 2023
AUTHOR:	JIM PHILLIPS, PRINCIPAL RISK MANAGEMENT OFFICER
DIVISION:	BUSINESS SUPPORT AND IMPROVEMENT
ATTACHMENTS:	1. REGULATORY SERVICES INTERNAL AUDIT REPORT

1. **PURPOSE**

This report informs the Audit Committee of the outcomes of the internal audit of the City of Unley Regulatory Services. The audit focused on the issuing of expiations and orders, and the processing of waivers.

This planned audit was approved by the Audit Committee in March 2023 as part of the 2023 Internal Audit Workplan.

2. **RECOMMENDATION**

That:

1. The report be received.
-

3. **RELEVANT CORE STRATEGIES – FOUR YEAR DELIVERY PLAN**

4. Civic Leadership

4.3 Our business systems are effective and transparent.

4. **BACKGROUND**

Regulatory Services play an important role in the promotion of community safety through education, awareness, and compliance relating to legislation and regulations that the City of Unley is responsible for upholding. They are the community-facing operations of the Council for community compliance with various legislation related to:

- Animal management and General Inspection,
- Parking enforcement and Permits, and
- Public and Environmental Health.

5. **DISCUSSION**

Objective and Scope

The objective of the internal audit project was to assess the adequacy and effectiveness of key processes, procedures, and controls in relation to animal management and general inspections, parking enforcements and permits, and public and environmental health.

The specific scope of this review included assessing:

- The adequacy and effectiveness of policies and procedures for issuing expiation notices and orders;
- Compliance with legislation/regulations for issuing expiation notices and orders;
- Consistency and effectiveness of the waiver process for expiation notices and orders, in accordance with existing policies and procedures; and
- Whether the control environment provides effective protection against fraud and corruption.

This audit activity did not include the implementation of planning and building controls in the City of Unley.

Findings

Based on the testing undertaken, and the evidence collated and reviewed, the audit can provide a strong level of assurance that the policies, procedures, and arrangements are adequate and effective in the issuing, managing and waiving expiation notices. A significant level of comfort can be drawn from the fact that the control environment provides effective protection against fraud and corruption.

The key finding from this review was that a number of staff, who should have had criminal history checks, did not have up-to-date clearances.

Management agreed with the recommendation and has set a target date for the agreed action.

Full details of the report are contained in Attachment 1.

Attachment 1

6. **REPORT AUTHORISERS**

Name	Title
Alex Brown	Manager Finance and Procurement
Nicola Tinning	General Manager, Business Support & Improvement

Internal Audit Report



Regulatory Services and Expiations

Audit Background and Authority

Regulatory Services play an important role in the promotion of community safety through education, awareness and compliance relating to legislation and regulations the City of Unley is responsible for upholding. Regulatory Services are the community facing operations of the Council for community compliance with various legislation related to:

- Animal management and General Inspection,
- Parking enforcement and Permits, and
- Public and Environmental Health.

This is a planned audit approved by the Audit Committee at its meeting on 28 March 2023.

Scope and Objectives

The objective of this internal audit project was to assess the adequacy and effectiveness of key processes, procedures, and controls in relation to animal management and general inspections, parking enforcements and permits, and public and environmental health.

The specific scope of this review included assessing:

- Adequacy and effectiveness of policies and procedures for issuing expiation notices and orders;
- Compliance with legislation/regulations for issuing expiation notices and orders;
- Consistency and effectiveness of the waiver process for expiation notices and orders in accordance with existing policies and procedures; and
- Whether the control environment provides effective protection against fraud and corruption.

This audit activity did not include the implementation of planning and building control in the City of Unley.

Audit Observation and Findings

Based on the testing performed, a strong level of assurance can be provided regarding the adequacy and effectiveness of the policies, procedures, practices, and arrangement in place in relation to the issuing, managing, and waiving of expiation notices.

Regulatory Services draws most of its directive documentation directly from the legislation and regulations that they are responsible for enforcing. The directive documents - Compliance Policy, Order Making Policy, and On-street Parking Policy - are current and published on the City of Unley website and are all due for review within 12 months of a new Council being elected.

Directive Documentation

Regulatory Services have a range of standard operating procedures that translate and support the implementation of the legislation, regulations, and directive documents. These standard operating procedures have been through a process of review and consultation with staff, and have been finalised and placed on the Regulatory Services Microsoft Teams site.

Knowledge and Awareness of Staff

Of the fourteen (14) staff in Regulatory Services and Environmental Health nine (9) staff were interviewed. One staff member, a Parking Inspector, took the auditor into the field so observation of their work could be undertaken.

All staff interviewed demonstrated a strong awareness of the legislation they were working to, and had a sound knowledge of the policies, procedures, and standard operating procedures. Staff presented as confident and competent in the work that they undertook.

Although staff indicated that on-the-job training was adequate, three staff commented on the need for more opportunities for training related to their work. This is particularly important for staff who must renew their accreditation every few years.

Five (5) staff do not have the appropriate level of clearance required by their job and person specification. (See [Appendix A – Findings](#))

The audit considered whether appropriately authorised officers are appointed and how this occurs. The process of appointing appropriately qualified and skilled authorised officers was found to comply with legislation.

Job roles and the requirements to become an Authorised Officer are clearly defined in the individual's job and person specification.

Waiving Expiation Notices

Of the 340 expiations waived between 1 January 2023 and 28 June 2023 a random sample of 91 (26%) were chosen for review.

Of these 86 (95%) were waived by the Authorised Officer. Two were waived by an inspector due to an administrative error, and three were signed by an Administration Officer in error. When Authorised Officers waive an expiation, they are processed by an Administration Officer. Due to an oversight during the induction process, the Administration Officer used their own name rather than the name of the Authorised Officer who had waived the expiation.

All the requests for waiving of expiation notices were received in writing and responded to in writing as required by the respective policies. This correspondence is recorded in ECM, the organisation's record management system.

Expiation notices are generated electronically and are served either in person, placed on the vehicle, or by post. On returning to the office, inspectors synchronise their devices with their computers to enter the information on the Pathways system. Regulatory Services do not keep any hardcopy files. All the files reviewed as part of this audit had a numerical identifier that enabled the auditor to easily check the waiving of notices and relevant files.

Environmental Health Inspectors report that because of the rigorous process of natural justice, education, warning, improvement notice, and then expiation notices, they have almost no reason or justification to waive an expiation notice. All steps to remediate the situation would have been tried prior to issuing an expiation.

Summary of Findings

Five staff required to have up-to-date criminal history check do not have a current check. Details of the findings arising from this audit are provided in [Appendix A](#), along with recommendations to address the improvement opportunities and control weaknesses identified. The finding has also been assessed against the City of Unley Risk Matrix, based

on Internal Audit's assessment of the likelihood and consequence of remedial action not being taken, and is summarised in the following table:

Consequence	Likelihood Ratings				
	Rare	Unlikely	Possible	Likely	Almost Certain
Catastrophic	Medium	Medium	High	High	Extreme
Major	Medium	Medium	High	High	Extreme
Moderate	Low	Medium	#1	High	High
Minor	Low	Low	Medium	Medium	High
Insignificant	Low	Low	Low	Medium	Medium

Conclusion

Based on the testing undertaken, and evidence collated and reviewed, this audit can provide a strong level of assurance that the policies, procedures, and arrangements are adequate and effective in the issuing, managing and waiving of expiation notices. A significant level of comfort can be drawn from the fact that the control environment provides effective protection against fraud and corruption.

This audit highlighted a new risk for Council:

Fraudulent/corrupt behaviour by a member of staff involved in compliance monitoring.

It is proposed that this risk be added to the operational risk register. [Appendix B](#) names the risk, highlights the controls and rates their effectiveness.

This audit activity was undertaken by Jim Phillips, Principal Risk Management Officer and the assistance and cooperation of business staff during the performance of this audit, is both acknowledged and appreciated.

Jim Phillips
Principal Risk Management Officer
 12 July 2023

Appendix A: Audit Findings and Improvement Opportunities

REGULATORY SERVICES AND EXPIATIONS		ECM# ref
Finding/Improvement opportunity No:		1.0
Control Description		
Responsibilities Defined: Authorised Officers' roles and responsibilities are defined.		
Control Reference:	Job and Person Specification	Control Effectiveness Assessment: Mostly effective
Finding / Improvement Opportunity Description		
<ul style="list-style-type: none"> Authorised Officers roles and responsibilities are clearly defined in their individual job and person specification. Each Authorised Officer is required to hold a current criminal history check. The table below highlights five officers who do not have an up-to-date check 		
Job Title	Confirm Up to date Criminal History Check - Yes/No	Confirm Person Description Requires Criminal History Check - Yes/No
Manager, Development and Regulatory Services	Yes	Yes
Team Leader Regulatory Services	Yes	Yes
Senior General Inspector	No	Yes
General Inspector	No- expired	Yes
Parking Inspector	No- expired	No
Parking Inspector	No	No
Parking Inspector	Yes	No
Regulatory Administration Officer	Yes	Yes
Regulatory Administration Officer	No	Yes
Permit Officer	Yes	Yes
Team Leader Building and Environmental Health	No	No
Senior Environmental Health Officer	No	Yes
Environmental Health Officer	No-expired	Yes
Environmental Health Officer	Yes	Yes

Potential Implication and Assessed Risk Level		
The lack of an up-to-date criminal history check may disqualify the person from being an authorised officer making their issuing of notices invalid.		
Likelihood:	Possible	Consequence: Moderate Assessment: Medium
Recommendation		
1.1	That Regulatory Services work with Human Resources to complete criminal history check for all staff who are without one as soon as practicable.	
Management Action / Treatment		
1.1	Management agreed with this recommendation and have already commenced the process to have up-to-date criminal history checks for all staff. Target Date 31 August 2023 Responsible Officer: Gary Brinkworth, Manager Regulatory Services	
Status and Progress on Implementation of Management Action / Treatment		
Date:	Status:	Update:

Appendix B: New Risk and Control Effectiveness

Risk	Fraudulent/corrupt behaviour by a member of staff involved in compliance monitoring	
Control Name	Control Description	Effectiveness
Directive Documentation	Current directive and / or guidance documentation relating to compliance and expiations are developed, implemented, and are subject to regular review.	Effective
Staff Awareness	Directive and guidance documentation is published, communicated and readily available to relevant staff.	Effective
Staff Training	Staff receive training to help understand their options and using their discretion.	Effective
Approval and Authorisation	A process is in place which ensures waivers of orders and expiation notices are approved and authorised by the appropriate authority.	Effective
Reporting and Monitoring	Regulatory Services activities are reported to Council on an annual basis.	Effective
Responsibilities Defined	Authorised Officers' roles and responsibilities are defined.	Mostly Effective
Enforcement Options	Authorised Officers maintain a record of the enforcement options that they choose and the reasons for their choice.	Effective
Right of Appeal	Where available, the entity receiving an order/expiation notice is made aware of their right of appeal in writing.	Effective
Appropriate Evidence	The evidence obtained to substantiate the issuing of an expiation notice must be sufficient to prove the offence occurred.	Effective
Health Expiation Notice	The inspector discusses issuing expiation notice with Senior Environmental Health Officer and the Team Leader Regulatory Services prior to issuing (<i>Expiation Notices clause 3.2</i>).	Effective
Health Expiation Notice	The expiation notice issued in a manner and form prescribed by the Expiation of Offences Act 1996 (<i>Expiation Notices clause 3.5</i>).	Effective
Separation of Duties	The person reviewing expiations should not be the same person who issued them. The reviewing officer should have the authority to withdraw notices.	Effective
Reviewing Expiations	Anyone can request a review. A request for review must be in writing and lodged in ECM (document management system). All reviews must be responded to in writing.	Effective
Removing reminder fees	Reminder fees that are not on a final notice may be removed by Administration staff if the customer is willing to make immediate payment	Effective

Records Management	Informal or formal action recorded in accordance with Council's Record Management Policy and procedure	Effective
Records Storage	Official records, evidence and legal documents are stored in secure repository, readily accessible to appropriately authorised staff	Effective

DECISION REPORT

REPORT TITLE:	PRUDENTIAL MANAGEMENT POLICY
ITEM NUMBER:	2.6
DATE OF MEETING:	08 AUGUST 2023
AUTHOR:	ALEX BROWN, MANAGER FINANCE AND PROCUREMENT
DIVISION:	BUSINESS SUPPORT AND IMPROVEMENT
ATTACHMENTS:	1. REVISED PRUDENTIAL MANAGEMENT POLICY 2. EXISTING PRUDENTIAL MANAGEMENT POLICY (2019)

1. **PURPOSE**

This report presents a revised Prudential Management Policy for the Audit Committee's consideration and recommendation to Council for endorsement. Council is required to review all Statutory and Council Policies within 12 months of an election.

This Policy outlines the City of Unley's approach towards prudential management and meeting the requirements of section 48 of the *Local Government Act 1999* (the Act). It imposes a standard of governance that encompasses effective prudential management and proper consideration of the impact of decisions for major projects.

2. **RECOMMENDATION**

That:

1. The report be received.
2. The Prudential Management Policy as set out in Attachment 1 to this report (Item xx, Audit Committee Meeting 08/08/2023) be recommended for Council endorsement.

3. **RELEVANT CORE STRATEGIES – FOUR YEAR DELIVERY PLAN**

4. Civic Leadership
 - 4.1 We have strong leadership and governance.
 - 4.3 Our business systems are effective and transparent.

4. **BACKGROUND**

Section 48(aa1) of the *Local Government Act 1999* (the Act) requires a council to maintain policies, practices and procedures for the assessment of projects to ensure that the council:

- (a) *acts with due care, diligence and foresight; and*
- (b) *identifies and manages risks associated with a project; and*
- (c) *makes informed decisions; and*
- (d) *is accountable for the use of council and other public resources.*

The Prudential Management Policy was initially adopted in September 2013, and last reviewed in August 2019. At that time, changes to the Policy were limited to formatting and updating position titles. A copy of the existing policy is included in Attachment 2.

Attachment 2

In July 2023 the Executive Management Team (EMT) endorsed a revised Project Management Framework (the Framework). The Framework provides a detailed four phase process to assess, plan, deliver and close out a project as summarised below:

Phase 1: Project Strategic Assessment & Initiation

Details the project conception and initiation stages, how to define the project scope and assist in the development of a Project Brief or Business Case for approval.

Phase 2: Project Planning

Details how to plan the project, including project scheduling, resource planning, stakeholder engagement, cost planning, communications, procurement, quality, and risk planning. This section also provides details of the levels of planning required for projects of different sizes and complexity.

Phase 3: Project Implementation

Details project delivery, ongoing monitoring, and project control. This section also covers reporting, communication, issues management, scope change, associated change control and refers to Council policies and procedures that must be followed for certain types of projects.

Phase 4: Project Completion

Details project close-out, including documentation, handover, and evaluation. Tips are also provided with a Project Closure Report to assist the effectiveness of project outcomes beyond the completion date.

5. **DISCUSSION**

The review of the Prudential Management Policy considered the alignment of the Policy to the recently endorsed Project Management Framework (the Framework).

Definitions

The definitions have been simplified and revised to align with the Framework and the Act. These revisions include:

- Aligning the definition of a *project* to the definition in the Framework;
- Aligning the definition of a *Prudential Project* to the definition of:
 - a project within the Act, and
 - a project requiring a prudential issues report;
- Transferring the explanation of the due diligence process to the Policy Statement (rather than in the definition).

Responsibilities

Project Managers, in consultation with the Project Sponsor, have been made responsible for ensuring the requirements of the Policy and section 48 of the Act are met.

Due Diligence

As the process of due diligence for projects is addressed within the Framework as part of *Phase 1: Project Strategic Assessment & Initiation*, the explanation of due diligence process within the Policy has been simplified to require:

- Due diligence to be completed in accordance with the Framework; and
- In instances where a prudential issues report is required under section 48(1)(b) of the Act, consideration of the prudential issues prescribed by section 48(2) of the Act.

Formatting

The Policy has been aligned to the current policy template for the City of Unley, including the inclusion of a table for the definitions.

6. POLICY IMPLICATIONS

The Policy meets the legislative requirements of the *Local Government Act (1999)*, and specifically section 48 of the Act.

6.1 Financial/budget implications

- Nil

6.2 Risk Management (identification and mitigation)

- The Policy requires the consideration of financial and operational risks as part of the due diligence process, including the quantification of the level of risk involved in a project and Council's appetite for that risk. It also requires the development of measures to reduce or mitigate risks to an acceptable level or, if practical, elimination.

6.3 Staffing/Work Plans/Additional Resource Impact

- Nil

6.4 Climate/Environmental Impact

- Nil

6.5 Social/Economic

- Nil

6.6 Legislative

- The Policy has been prepared and reviewed to meet the requirement of the Local Government Act 1999, and specifically the requirements under section 48 — *Prudential requirements for certain activities*.

7. ANALYSIS OF OPTIONS

Option 1 –

1. The report be received.
2. The Prudential Management Policy as set out in Attachment 1 to this report (Item xx, Audit Committee Meeting 08/08/2023) be recommended for Council endorsement.

This option recommends to Council the endorsement of the Policy. Council Policies are published on the City of Unley website once finalised.

Council is required to review all Statutory and Council Policies within 12 months of an election. The revisions to the Policy will align the Policy with the recently revised Project Management Framework.

Option 2-

1. The report be received.
2. Subject to the incorporation of the following amendments, the Prudential Management Policy as set out in Attachment 1 to this report (Item xx, Audit Committee Meeting 08/08/2023) be recommended for Council endorsement.
 - 2.1 Amendments to be determined by Audit Committee.
3. The CEO be authorised to make minor editorial and formatting changes as required to the Prudential Management Policy, to finalise the document.

The Audit Committee may wish to make amendments to the Policy. If this is the case, the amendments should be articulated as part of the resolution.

8. **RECOMMENDED OPTION**

Option 1 is the recommended option.

9. **REPORT AUTHORISERS**

Name	Title
Nicola Tinning	General Manager, Business Support & Improvement



POLICY NAME

Policy Type:	Council
Responsible Department:	Business Support & Improvement
Responsible Officer:	General Manager Business Support and Improvement.
Related Policies and Procedures	<ul style="list-style-type: none"> • Risk Management Policy • Risk Management Framework • Procurement Policy • Procurement Framework • Project Management Framework
Community Plan Link	4. Civic Leadership 4.1 We have strong leadership and governance 4.3 Our business systems are effective and transparent
Date Adopted	23 September 2013: C893/13
Last review date	26 August 2019: C0079/19
Next review date	August 2027
Reference/Version Number	S0001: V4 (Proposed)
ECM Doc set I.D.	2091781

1. PREAMBLE

- 1.1. This Prudential Management Policy seeks to outline City of Unley's approach towards prudential management and meeting the requirements of the *Local Government Act 1999* (the Act). It imposes a standard of governance that encompasses effective prudential management and proper consideration of the impact of decisions for major projects.
- 1.2. This policy seeks to enhance Council's existing policies and procedures that govern Council's prudential management and due diligence of projects. Council's core Due Diligence principles are as follows:
 - 1.2.1. efficient and cost effective use of public funds;
 - 1.2.2. accountability, integrity and due process;
 - 1.2.3. compliance;
 - 1.2.4. identification of benefits and/or needs; and
 - 1.2.5. identification of financial and organisational risks.

2. SCOPE

2.1. This is a mandatory policy as required under section 48(aa1) of the Act, which prescribes that:

A Council must develop and maintain prudential policies, practices and procedures for the assessment of projects to ensure that the Council:

- a) acts with due care, diligence and foresight; and*
- b) identifies and manages risks associated with a project; and*
- c) makes informed decisions; and*
- d) is accountable for the use of council and other public resources.*

2.2. The policy applies to all projects (as defined below) regardless of size undertaken by the City of Unley. In addition, specific reporting requirements apply to projects as defined within s48(1) of the Act.

3. POLICY PURPOSE/OBJECTIVES

3.1. Council is committed to a pro-active risk management approach in accordance with its Risk Management Framework, when undertaking all projects.

3.2. Council will make open, transparent and informed decisions in regard to projects based on reliable, accurate and timely information.

3.3. Council's objectives of this Policy are to ensure that each Council project:

- 3.3.1. is undertaken only after an appropriate level of due diligence is applied to the proposed project;
- 3.3.2. is managed appropriately during the project and evaluated after the project in terms of the use of council and other public resources to achieve identified public benefits and/or needs, and to minimise financial risks;
- 3.3.3. meets the Prudential Issues Report requirements when consideration is being given to a project that falls within the requirements of Section 48(1)(b) of the Act.

4. DEFINITIONS

Due Diligence	The conduct of a systematic review of a proposed transaction, prior to entering the transaction.
Financial Risk	The exposure of Council to financial loss or under or over budgeting.



Organisational Risk	Council's exposure to risks including, but not limited to, work, health and safety, public and product liability, reputational and political impacts. These risks are separate from, but may be linked to, financial risk.
Project	<p>A specific outcome with a defined beginning and end which meets established goals within the parameters of cost, time and quality.</p> <p>This may include Operating Projects, Capital Works Program (new & replacement), relevant key actions from the Annual Business Plan and Supporting Initiatives from the 4 Year Plan.</p>
Prudential Project	<p>A project requiring a Prudential Issues Report as specified in Section 48(1)(b) of the Act.</p> <p>For the purposes of Section 48, the Act defines a project to include:</p> <ul style="list-style-type: none"> • any form of activity or enterprise; • the provision of facilities or services; • any form of scheme, work or undertaking.
Prudential Issues Report	The formal report with specific due diligence and format requirements in accordance with Section 48(2) of the Act. This report needs to be obtained and considered by Council for Prudential Projects.
Whole-of-life costs/costing	An assessment of all costs associated with any Project from inception, implementation, maintenance and decommissioning of assets and or services arising from a Project and includes all cash, depreciation and financing considerations

5. ROLES AND RESPONSIBILITIES

- 5.1. This Policy will be administered on behalf of Council by the General Manager Business Support and Improvement.
- 5.2. Project Managers, in consultation with the Project Sponsor, are responsible for ensuring the requirements of the Policy and Section 48 of the Local Government Act (1999) are met.
- 5.3. Decision making in relation to a Prudential Issues Report will rest with Council.



6. POLICY STATEMENT

Projects

- 6.1. For the City of Unley, defined projects will be required to follow the Project Management Framework covering a project evaluation including a due diligence assessment, approval, monitoring and reporting.
- 6.2. This will require all defined projects to be assessed as to the level of due diligence that is required. The level of due diligence is based on the residual risk rating of the Financial Risks and Organisational Risks of the Project.

Effective due diligence

- 6.3. Effective due diligence for a project requires the following to be considered:
 - 6.3.1. compliance with the Project Management Framework, procedures and structures to regulate how projects are assessed;
 - 6.3.2. benefits and/or needs in terms of:
 - 6.3.2.1. identification, articulation and (where possible) quantification of measures of public benefits or needs that are intended to be achieved or satisfied by the project;
 - 6.3.2.2. project governance to ensure that the project remains focussed on the expected public benefits or needs; and
 - 6.3.2.3. at completion, evaluation of the project on the extent to which it has achieved the public benefits or needs that it was intended to achieve or satisfy.
 - 6.3.3. project costs including expected whole-of-life costs and revenue impacts; and
 - 6.3.4. risks in terms of:
 - 6.3.4.1. the identification, in a systematic and transparent manner, of the risks and the benefits of the project to both the Council and its community;
 - 6.3.4.2. quantification of the level of risk involved with the project and Council's appetite for that risk;
 - 6.3.4.3. the development of measures to reduce or mitigate risks to an acceptable level or if practical elimination;
 - 6.3.4.4. ensuring that those measures are adhered to during implementation; and
 - 6.3.4.5. project governance to ensure that risks continue to be monitored.

- 6.4. For the City of Unley this will be achieved by complying with the Project Management Framework and completion of the Business Case and Project Management Plan as defined under that framework.

Due diligence

- 6.5. Due diligence will be undertaken in accordance with the Project Management Framework.
- 6.6. The due diligence for a Prudential Project will include consideration of prudential issues as prescribed by Section 48(2) of the Act.

Due diligence during a project

- 6.7. After a decision has been made to commence a project, it will be managed in accordance with Council's Project Management Framework to ensure that the principles of due diligence are met.
- 6.8. The Council will take action to manage the project so that:
- 6.8.1. the project remains focussed upon the expected public benefits or needs that have been identified in the due diligence analysis; and
 - 6.8.2. financial and operational risks identified in the due diligence analysis are managed appropriately.

Due diligence after a project

- 6.9. Once a project has been completed, it will be evaluated using the Council's Project Management Framework to determine the extent to which the project:
- 6.9.1. achieved the public benefits or needs identified in the due diligence that it was intended to achieve or satisfy; and
 - 6.9.2. avoided or mitigated the financial and operational risks identified in the due diligence analysis.

Prudential Issues Report

- 6.10. A Prudential Issues Report is required in accordance with Section 48(1)(b) of the Act where:
- 6.10.1. the expected expenditure of the Council over the ensuing five years is likely to exceed 20% of the Council's average annual operating expenses over the previous five financial years (as shown in the Council's financial statements); or
 - 6.10.2. the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed); or
 - 6.10.3. the Council considers that it is necessary or appropriate.
- 6.11. For the purposes of Section 48, the Act defines a project to include:



- 6.11.1. any form of activity or enterprise;
 - 6.11.2. the provision of facilities or services;
 - 6.11.3. any form of scheme, work or undertaking;
- 6.12. In accordance with Section 48(3) of the Act, the definition of a prudential project does not apply to road construction or maintenance; or drainage works.
- 6.13. The basis of indexation is explained in Section 48(6d) of the Act.

Prudential Issues Report Author

- 6.14. For a Prudential Issues Report, the author will be an independent person who is skilled in the assessment of prudential issues relevant to the proposed project. This may be an employee of Council, however in such instance the person must not have an interest in the proposed project.
- 6.15. Section 48(4) states the qualifications that a person must have in order to prepare a Prudential Issues Report. However, Council's external auditor cannot be engaged to provide a Section 48 Prudential Issues Report.

Consideration of the Prudential Issues Report

- 6.16. The engaged author will prepare a Prudential Issues Report in accordance with this policy and the legislation for consideration of Council prior to the project commencement.
- 6.17. Under Section 48(4b) a council must give reasonable consideration to a Prudential Issues Report (and must not delegate the requirement to do so under this subsection). This prevents the Council from delegating formal consideration of the report to the Audit Committee or any other group or person.
- 6.18. However, Council could seek and consider comment from its Audit Committee (or another Committee of Council) as part of its deliberations.

Public access to the Prudential Issues Report

- 6.19. The Prudential Issues Report will form part of the Council Agenda papers and will be a public document unless it has been determined otherwise by the Council in accordance with Section 90 of the Act.

7. POLICY DELEGATIONS

- 7.1. Nil

8. LEGISLATION

- *Local Government Act 1999*



9. AVAILABILITY OF POLICY

9.1. The Policy can be downloaded, free of charge, from Council's website:
www.unley.sa.gov.au.

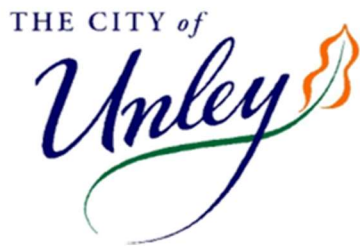
9.2. A printed copy may be purchased on request at:

The Civic Centre,
181 Unley Road, Unley SA 5061.

10. DOCUMENT HISTORY

Date	Ref/Version No.	Comment
23 September 2013	C893/13: V1	
26 September 2016	C600/16: V2	
26 August 2019	C0079/19: V3	
19 July 2023	V4 (Proposed)	





S0001: PRUDENTIAL MANAGEMENT POLICY

Policy Type:	Statutory Policy
Responsible Department:	Finance & Procurement
Responsible Officer:	Chief Financial Officer
Related Policies and Procedures	<ul style="list-style-type: none"> • Risk Management Policy • Risk Management Framework • Procurement Policy & Framework • Project Management Framework
Community Plan Link	<i>Civic Leadership</i> 4.3 Our business systems are effective and transparent.
Date Adopted	23 September 2013: C893/13
Last review date	26 August 2019: C0079/19
Next review date	August 2022, or upon significant legislative change pertaining to section 48 of the <i>Local Government Act</i> .
Reference/Version Number	S0001: V3
ECM Doc set I.D.	2091781

1. PREAMBLE

- 1.1. This Prudential Project Management Policy seeks to outline City of Unley's approach towards prudential management and to meet the requirements of the *Local Government Act 1999* (the Act). It imposes a standard of governance that encompasses effective prudential management and proper consideration of the impact of decisions for major projects.
- 1.2. This policy seeks to enhance Council's existing policies and procedures that govern Council's prudential management and due diligence of projects. Council's core Due Diligence principles are as follows:
 - efficient and cost effective use of public funds;
 - accountability, integrity and due process;
 - compliance;
 - identification of benefits or needs; and
 - identification of financial and organisational risks.

2. SCOPE

- 2.1. This is a mandatory policy as required under section 48(aa1) of the Act, which prescribes that:

A Council must develop and maintain prudential policies, practices and procedures for the assessment of projects to ensure that the Council:

- a) acts with due care, diligence and foresight; and*
- b) identifies and manages risks associated with a project; and*
- c) makes informed decisions; and*
- d) is accountable for the use of council and other public resources.*

2.2. The policy applies to all projects (as defined below) regardless of size undertaken by the City of Unley. In addition, specific reporting requirements apply to projects as defined within s48(1) of the Act.

3. POLICY OBJECTIVES

3.1. Council is committed to a pro-active risk management approach in accordance with its Risk Management Framework, when undertaking all projects.

3.2. Council will make open, transparent and informed decisions in regard to projects based on reliable, accurate and timely information.

3.3. Council's objectives of this Policy are to ensure that each Council project:

- is undertaken only after an appropriate level of due diligence is applied to the proposed project;
- is managed appropriately during the project and evaluated after the project in terms of the use of council and other public resources to achieve identified public benefits or needs; and to minimise financial risks;
- meets the prudential report requirements when consideration is being given to a project that falls within the requirements of Section 48(1)(b) of the Act.

4. DEFINITIONS

4.1. **Due Diligence** is defined as the conduct of a systematic review of a transaction, prior to entering the transaction.

4.1.1. Effective due diligence for a project requires the following to be considered:

- compliance with procedures and structures to regulate how projects are assessed;
- benefits or needs in terms of:
 - (a) identification, articulation and (where possible) quantification of measures of public benefits or needs that are intended to be achieved or satisfied by the project;
 - (b) supervision of the project to ensure that it remains focussed on the expected public benefits or needs; and
 - (c) at completion, evaluation of the project on the extent to which it has achieved the public benefits or needs that it was intended to achieve or satisfy.
- project costs including expected whole-of-life costs and revenue impacts; and
- risks in terms of:

- (a) the identification, in a systematic and transparent manner, of both the risks and the benefits of the project to both the Council and its community;
- (b) quantification of the level of risk involved with the project;
- (c) the development of measures to reduce or mitigate risks to an acceptable level or if practical elimination;
- (d) ensuring that those measures are adhered to during implementation; and
- (e) supervision of the project to ensure that risks continue to be monitored.

4.1.2. For the City of Unley this will be achieved by complying with the Project Management Framework and completion of the Project Brief and Project Management Plan (where relevant) as defined under that framework.

4.2. Due Diligence Assessment (DDA)

4.2.1. Depending on a Project's financial and organisation risk consequence and risk likelihood, a DDA of greater or lesser detail will be prepared. This DDA will include, in relation to the proposed project:

- an analysis of the need or demand;
- identification and quantification of the expected financial and other benefits;
- identification and quantification of the likely whole-of-life financial and other costs, including staffing and project management costs;
- assessment of the associated financial risks, (including the financial risks of not proceeding or delaying the proposed project) and consideration of ways they can be managed and/or mitigated; and
- an evaluation that weighs up all of the factors above.

4.2.2. Under Council's Project Management Framework, larger projects are likely to consist of a number of stages such as Concept, Feasibility/Planning Study, Design and Implementation. In these circumstances, the DDA should be updated at each stage and address both the overall project as well as the next proposed stage of delivery.

4.2.3. The City of Unley DDA categories are as follows, noting that each level requires an increasing level of detail:

- *Level 1 Assessment* Basic DDA
- *Level 2 Assessment* Project Feasibility Study
- *Level 3 Assessment* Business Case
- *Level 4 Assessment* Prudential Project.

4.3. **Financial Risk** is the exposure of Council to financial loss or under or over budgeting.

4.4. **Organisational Risk** includes, but is not limited to, work, health and safety, public and product liability, reputational and political impacts and is separate but may be linked to financial risk.

4.5. A **Project** is defined as a new and discrete undertaking or activity that would involve the expenditure of money, deployment of resources, incurring or assuming a liability, or accepting an asset. This may include Operating Projects, Capital Works Program

(new & replacement), relevant key actions from the Annual Business Plan and Supporting Initiatives from the 4 Year Plan.

- 4.6. **Project Management Framework** is the approved project management tool to cover project evaluation and due diligence assessment, approval, monitoring and reporting from initial concept through to project close out/ hand over to operations.
- 4.7. A **Prudential Project** is a Project that meets the following:
 - (a) where the expected expenditure of the Council over the ensuing five years is likely to exceed 20% of the Council's average annual operating expenses over the previous five financial years (as shown in the Council's financial statements); or
 - (b) where the expected capital cost of the project over the ensuing five years is likely to exceed \$4,000,000 (indexed); or
 - (c) where the Council considers that it is necessary or appropriate.

In accordance with Section 48(3) of the *Local Government Act*, the definition of a prudential project does not apply to road construction or maintenance; or drainage works.

- 4.8. **Prudential Report** is the formal report with specific due diligence and format requirements in accordance with Section 48(2) of the Act. This report needs to be obtained and considered by Council for Prudential Projects.

A Prudential Report will be regarded as the highest level of prudential management and associated due diligence.

- 4.9. **Whole-of-life costs/costing** means an assessment of all costs associated with any Project from inception, implementation, maintenance and decommissioning of assets and or services arising from a Project and includes all cash, depreciation and financing considerations

5. ROLES AND RESPONSIBILITIES

- 5.1. This policy will be administered on behalf of Council by the Chief Financial Officer.
- 5.2. Decision making in relation to a Prudential Report will rest with Council.

6. POLICY STATEMENT

6.1. PROJECTS

- 6.1.1. For City of Unley defined projects will be required to follow the Project Management Framework covering a project evaluation including a due diligence assessment, approval, monitoring and reporting.
- 6.1.2. This will require all defined projects to be assessed as to the level of due diligence that is required. The level of DDA is based on the Financial and Organisational Risk Consequence and the Risk Likelihood of the Project.

6.2. DUE DILIGENCE DURING A PROJECT

- 6.2.1. After a decision has been made to commence a project, it will be managed using the applicable project management methodology of Council to ensure that the principles of due diligence are met.
- 6.2.2. The Council will take action to manage the project so that:

- the project remains focussed upon the expected public benefits or needs that have been identified in the DDA; and
- financial risks identified in the DDA are managed appropriately.

6.3. DUE DILIGENCE AFTER A PROJECT

6.3.1. Once a project has been completed, it will be evaluated using the applicable project management methodology of Council, according to the principles of due diligence, to determine the extent to which the project:

- has achieved the public benefits or needs identified in the DDA that it was intended to achieve or satisfy; and
- has avoided or mitigated the financial risks identified in the DDA.

6.4. FULL PRUDENTIAL REPORT

6.4.1. For a defined Prudential Project under Section 48(1) of the Act, there is a requirement that a full prudential report be prepared for Council. A report under Section 48 will be regarded as the highest-level, most thorough type of DDA for the purposes of this Policy.

6.4.2. A full prudential report may also be commissioned under Section 48, for “any other project for which the Council considers that it is necessary or appropriate”.

6.5. FULL PRUDENTIAL REPORT AUTHOR

6.5.1. For a Full Prudential Report, the author will be an independent person who is skilled in the assessment of prudential issues relevant to the proposed project. This may be an employee of Council; however in such instance the person must not have an interest in the proposed project.

6.5.2. Section 48(4) states the qualifications that a person must have in order to prepare a Prudential Report. However, Council's external auditor cannot be engaged to provide a Section 48 Prudential Report.

6.6. CONSIDERATION TO THE FULL PRUDENTIAL REPORT

6.6.1. The engaged author will prepare a Prudential Report in accordance with this policy and the legislation for consideration of Council prior to the project commencement.

6.6.2. Under Section 48 (4b) a council must give reasonable consideration to a Prudential Report (and must not delegate the requirement to do so under this subsection). This prevents the Council from delegating formal consideration of the report to the Audit Committee or any other group or person.

6.6.3. However, Council could seek and consider comment from its Audit Committee (or another Committee of Council) as part of its deliberations.

6.7. PUBLIC ACCESS OF THE PRUDENTIAL REPORT

6.7.1. The Prudential Report will form part of the Council Agenda papers and will be a public document unless it has been determined otherwise by the Council in accordance with section 90 of the Act.

7. POLICY DELEGATIONS

7.1. Nil.

8. LEGISLATION

8.1. *Local Government Act 1999*

9. AVAILABILITY OF POLICY

9.1. The Policy is available for public inspection during normal office hours at:

The Civic Centre,
181 Unley Road, Unley SA 5061.

A copy may be purchased for a fee as determined annually by Council.

It is also available for viewing, download and printing free of charge from the Council's website www.unley.sa.gov.au.

10. DOCUMENT HISTORY

Date	Ref/Version No.	Comment
23 September 2013	C893/13: V1	
26 September 2016	C600/16: V2	
26 August 2019	C0079/19: V3	