



SHIRE OF ASHBURTON

AUDIT COMMITTEE MEETING

AGENDA & ATTACHMENTS

**Onslow Multi-Purpose Centre,
Cnr McGrath Rd and Hooley Ave, Onslow**

**19 March 2014
Commencing at 10:30am**

SHIRE OF ASHBURTON
AUDIT COMMITTEE MEETING

Dear Councillor

Notice is hereby given that an Audit Committee Meeting of the Shire of Ashburton will be held on Wednesday 19 April 2014 at the Onslow Multi-Purpose Centre, Cnr McGrath Rd and Hooley Ave, Onslow commencing at 10:30am.

The business to be transacted is shown in the Agenda.

Neil Hartley
CHIEF EXECUTIVE OFFICER

DISCLAIMER

The recommendations contained in the Agenda are subject to confirmation by Council. The Shire of Ashburton warns that anyone who has any application lodged with Council must obtain and should only rely on written confirmation of the outcomes of the application following the Council meeting, and any conditions attaching to the decision made by the Council in respect of the application. No responsibility whatsoever is implied or accepted by the Shire of Ashburton for any act, omission or statement or intimation occurring during a Council meeting.

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1. DECLARATION OF OPENING

2. ATTENDANCE

2.1 PRESENT

Cr K White	Shire President, Onslow Ward
Cr L Rumble	Deputy Shire President, Paraburdoo Ward
Cr A Eyre	Ashburton Ward
Cr I Dias	Paraburdoo Ward

Mr Neil Hartley	Chief Executive Officer
Mr F Ludovico	Executive Manager Corporate Services
Leah John	Finance Manager (by telephone)

2.2 APOLOGIES

2.2 APPROVED LEAVE OF ABSENCE

Nil

3. ELECTION OF CHAIRPERSON

The members of a committee are to elect a presiding member from amongst themselves in accordance with Schedule 2.3 of the Local Government Act 1995 (S5.12 Local Government Act 1995).

The Chief Executive Officer will conduct this election.

4. ANNOUNCEMENT OF VISITORS

Mr Wen Shien Chai (Chai) – Auditor - UHY Haines Norton will be contacted by telephone to address the Committee at 10:30am

5. DECLARATION BY MEMBERS

That Councillors have given due consideration to all matters contained in the Agenda presently before the meeting.

6. CONFIRMATION OF MINUTES OF PREVIOUS MEETING

Officer's Recommendation

That the Minutes of the Audit Committee held on 13 March 2013 be accepted as true and correct.

ATTACHMENT 6

7. TERMS OF REFERENCE

Under the Local Government Act 1995, Local Governments are required to appoint an Audit Committee (section 7.1A of the Local Government Act 1995).

An Audit Committee is to provide guidance and assistance to the Local Government – as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act and as to the development of a process to be used to select and appoint a person to be an auditor and may provide guidance and assistance to the Local Government as to – matters to be audited, the scope of audits, its functions under Part 6 of the Act and the carrying out of its functions relating to other audits and other matters related to financial management. (clause 16 Local Government (Audit) Regulations 1996).

Meeting cycle: At least once a year to recommend adoption of Annual Report.

8. AGENDA ITEMS

8.1 REVIEW OF 2012/13 INDEPENDANT AUDIT REPORT AND MANAGEMENT REPORT

FILE REFERENCE:	FI.AU.12.13
AUTHOR'S NAME AND POSITION:	Frank Ludovico Executive Manager Corporate Services
NAME OF APPLICANT/RESPONDENT:	Not Applicable
DATE REPORT WRITTEN:	26 February 2014
DISCLOSURE OF FINANCIAL INTEREST:	The author has no financial interest in this matter.
PREVIOUS MEETING REFERENCE:	Not Applicable

Summary

The Auditors conducted the Annual Financial Audit for 2012/13 during October 2013. This Item discussed the outcomes of that Audit.

Background

Audit procedures have been completed and the Audit Report for the year ended 30 June 2013 has been prepared by Council Auditors UHY Haines Norton.

Attached are Council's Annual Report, Audit Report and Management Letter.

Please note a copy of the Annual Report and Audit Report has been provided as an attachment to the 19 March 2014 Ordinary Meeting of Council Agenda Item 13.10 and is not provided in this agenda.

ATTACHMENT 8.1

The issues brought to the attention of Council in the Audit Report are:

Audit Report	Staff Response
Power to Borrow Whilst the unbudgeted loan for the development of Onslow Aerodrome Temporary Camp was approved with absolute majority by the Council, one month's local public notice of this proposal to borrow was not given as required by Section 6.20(2)(a) of the Local Government Act.	This item is noted, and future unbudgeted loans will be advertised as per Section 6.20(2)(a) of the Local Government Act.
Budget Review	

<p>A copy of the budget review was not submitted to the Department within 30 days of its adoption as required by Local Government (Financial Management) Regulation 33A(4).</p>	<p>This report was submitted to the Department of Local Government on 25 June 2013.</p> <p>To ensure this error does not happen again, the Shire of Ashburton has implemented a Compliance Calendar.</p>
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The Management Letter raises the following issues:

Management Letter	Staff Response
<p>Actual carried forward surplus compared to 2013/2014 budgeted brought forward surplus</p>	<p>The Annual Budget Review has incorporated the revised opening balance.</p> <p>Discussions have occurred in respect to funding for the Onslow Aerodrome Redevelopment Project and this has resolved a number of issues. These have been incorporated into the Annual Budget Review.</p> <p>Some uncertainty still surrounds future funding for Onslow Aerodrome Redevelopment Project and discussions are continuing.</p>
<p>Comment on ratios</p>	<p>Current Ratio: owing to the extraordinary expenditure associated with Onslow Aerodrome Redevelopment Project in the final few months of the Financial Year, at 30 June 2013 our Current Ratio was well below the recommended value of 1.</p> <p>Expenditures of this nature and volume are not anticipated in the future.</p> <p>In addition, a more vigorous approach is being developed for project management and risk which will enable better manage these issues into the future.</p> <p>Asset Renewal Funding Ratio: owing to the extraordinary situations occurring in 2012/2013 completion of Asset Management Plan and Long Term Financial Plan have not been completed.</p> <p>The Long Term Financial Plan will be developed from the revised Budget figures resulting from the Annual Budget Review.</p> <p>The Asset Management Plan is also being developed.</p>
<p>Investment Policy</p>	<p>The Investment Policy will be reviewed by 30 June</p>

	2013.
Probity Audit	<p>Since the Annual Audit additional work has occurred on the Probity Audit recommendations.</p> <p>In a letter dated 19 February 2014 (record 1425217) the Department of Local Government advise <i>“With the exception of the matters which were subject to further investigation by D Carbone and Associates (Carbone Report) and those matters detailed in the attachment (That the contracts of employment for the CEO and all senior employees comply with the Local Government Act 1995 and the Tender Register complies with regulation 17 of the Local Government (Functions and General) Regulations 1996), the Department is satisfied that processes and procedures implemented by the Shire have met the intent of the recommendations of the Report.”</i></p> <p>Both these matters are being attended to. The Contract issue has been implemented and Onslow/Tom Price Camps issues are being addressed.</p>

It is pleasing to note that whilst 2012/13 year was a year of significant turmoil, Council's financial systems were able to provide *“a true and fair view of the Shire's financial position as at 30 June 2013 and of its performance for the year ended on that date; and complied with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).”*

This is a result of the ongoing hard-work of all staff members within the Corporate Services.

Officer's Recommendation

That the Audit Committee recommend to Council the acceptance the 2012/2013 Shire of Ashburton Independent Audit Report, Management Report and Annual Report.

Author: Frank Ludovico	Signature:
Manager: Neil Hartley	Signature:

8.2 NEW DEPARTMENT OF LOCAL GOVERNMENT and COMMUNITIES OPERATIONAL GUIDELINE FOR AUDIT COMMITTEES

FILE REFERENCE:	FI.AU.00.00
AUTHOR'S NAME AND POSITION:	Frank Ludovico A/Chief Executive Officer
NAME OF APPLICANT/RESPONDENT:	Not Applicable
DATE REPORT WRITTEN:	7 March 2013
DISCLOSURE OF FINANCIAL INTEREST:	The author has no financial interest in this matter
PREVIOUS MEETING REFERENCE:	Not Applicable

Summary

New regulations were gazetted for the Local Government (Audit) Regulations 1996 in February 2013. As a result of those amendments Local Government Operational Guideline – 9 – Audit in Local Governments has been revised.

The purpose of this item is to advise the Committee of the changing regulations and the updated Local Government Operational Guideline.

Background

New regulations were gazetted for the Local Government (Audit) Regulations 1996 in February 2013. As a result of those amendments Local Government Operational Guidelines – 9 – Audit in Local Governments has been revised.

The new Regulation 17 prescribes a number of matters that are to be reviewed by the audit committee. These functions now include reviewing the Chief Executive Officer's report on the appropriateness and effectiveness of the local government's systems in regard to risk management, internal control and legislative compliance; and reporting the results of the Committee's consideration of that review, to the Council.

This report and review process is to occur at least once every two calendar years, with the first review of each of the three areas to be completed by the CEO, reviewed by the Audit Committee and reported to the Council, by 31 December 2014.

The Local Government Circular (39-2012) and the new Local Government Operational Guideline (9) is attached for Committee information.

ATTACHMENT 8.2

Comment

The new regulations are designed to further enhance the good governance of Local Government in Western Australia.

Consultation

Chief Executive Officer
Executive Management Team

Statutory Environment

New Regulation 17 Local Government (Audit) Regulations 1996 prescribed new functions for the Audit Committee.

“17. CEO to review certain systems and procedures

- (1) The CEO is to review the appropriateness and effectiveness of a local government’s systems and procedures in relation to —
 - (a) risk management; and
 - (b) internal control; and
 - (c) legislative compliance.
- (2) The review may relate to any or all of the matters referred to in subregulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.
- (3) The CEO is to report to the audit committee the results of that review.

[Regulation 17 inserted in Gazette 8 Feb 2013 p. 868.]”

Financial Implications

The new reviews prescribed will require additional governance activity and will incur a cost. The Administration will need to review the situation and apply funding in future budgets to account for these new requirements.

Strategic Implications

Shire of Ashburton 10 Year Community Strategic Plan 2012-2022
Goal 05 – Inspiring Governance
Objective 04 – Exemplary Team and Work Environment

Policy Implications

Not Applicable

Voting Requirement

Simple Majority Required

Officer’s Recommendation

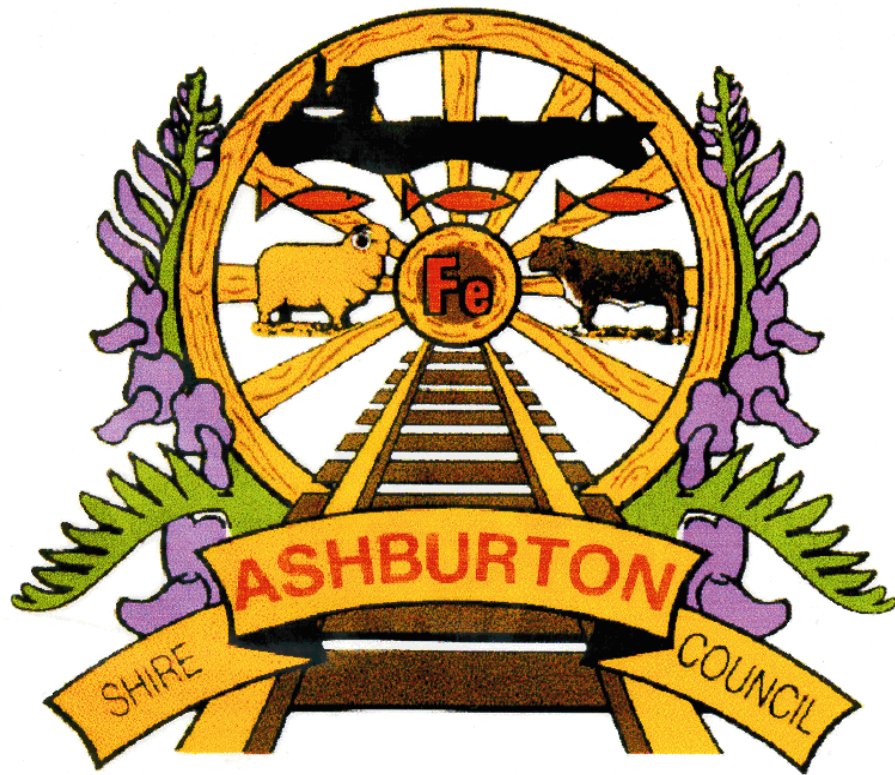
That the Audit Committee notes the new requirements contained in Local Government (Audit) Regulations 1996

Author: Frank Ludovico	Signature:
Manager: Neil Hartley	Signature:

9. NEXT MEETING

The next Audit Committee Meeting will be held at a time to be determined.

10.CLOSURE OF MEETING



SHIRE OF ASHBURTON

AUDIT COMMITTEE MEETING

MINUTES

**Onslow Business House,
Second Ave, Onslow**

13 March 2013

SHIRE OF ASHBURTON
AUDIT COMMITTEE MEETING

Dear Councillor

Notice is hereby given that an Audit Committee Meeting of the Shire of Ashburton will be held on Wednesday 13 March 2013 at the Onslow Business House (connection via instantaneous communication) at 07.30am.

The business to be transacted is shown in the Agenda.

Frank Ludovico
A/CHIEF EXECUTIVE OFFICER

7 March 2013

DISCLAIMER

The recommendations contained in the Agenda are subject to confirmation by Council. The Shire of Ashburton warns that anyone who has any application lodged with Council must obtain and should only rely on written confirmation of the outcomes of the application following the Council meeting, and any conditions attaching to the decision made by the Council in respect of the application. No responsibility whatsoever is implied or accepted by the Shire of Ashburton for any act, omission or statement or intimation occurring during a Council meeting.

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1. DECLARATION OF OPENING

The meeting was declared open at 07.32am

2. ATTENDANCE

2.1 PRESENT

Commissioner Ron Yureyovich

Mr Chris Burton (Auditor, BDO) via telephone

Mr F Ludovico, A/Chief Executive Officer

2.2 APOLOGIES

Nil

2.2 APPROVED LEAVE OF ABSENCE

Nil

3. ELECTION OF CHAIRPERSON

Mr F Ludovico called for nominations of Chairman.

Committee Decision

MOVED: Commissioner Yureyovich

SECOND:

That Commissioner Yureyovich be appointed the Chairperson for the Audit Committee.

CARRIED: 1/0

4. ANNOUNCEMENT OF VISITORS

Mr Chris Burton (Auditor) BDO (Audit) were contacted by telephone to address the Committee at 07.32am.

7. TERMS OF REFERENCE

Under the Local Government Act 1995, Local Governments are required to appoint an Audit Committee (section 7.1A of the Local Government Act 1995).

An Audit Committee is to provide guidance and assistance to the Local Government – as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act and as to the development of a process to be used to select and appoint a person to be an auditor and may provide guidance and assistance to the Local Government as to – matters to be audited, the scope of audits, its functions under Part 6 of the Act and the carrying out of its functions relating to other audits and other matters related to financial management. (clause 16 Local Government (Audit) Regulations 1996)

Meeting cycle: At least once a year to recommend adoption of Annual Report

8. AGENDA ITEMS

8.1 REVIEW OF 2011/2012 INDEPENDANT AUDIT REPORT AND MANAGEMENT REPORT

FILE REFERENCE:	FI.AU.10.11
AUTHOR'S NAME AND POSITION:	Frank Ludovico A/Chief Executive Officer
NAME OF APPLICANT/RESPONDENT:	Not Applicable
DATE REPORT WRITTEN:	7 March 2013
DISCLOSURE OF FINANCIAL INTEREST:	The author has no financial interest in this matter
PREVIOUS MEETING REFERENCE:	Not Applicable

Summary

The Auditors conducted the Annual Financial Audit for 2010/2011 during October 2011. This Item discussed the outcomes of that Audit.

Background

Audit procedures have been completed and the Audit Report for the year ended 30 June 2012 has been prepared by Council Auditors BDO (Audit).

Attached are Council's Annual Report, Audit Report and Management Letter

ATTACHMENT 8.1A.
ATTACHMENT 8.2B

No issues were noted to be brought to the attention of Council in the Audit Report. The Management Letter raises one issue which will be addressed by staff. It is pleasing to note this positive outcome is the result of the ongoing hard-work of all staff members within the Corporate Services.

Auditors Comments

The Auditors were invited to make comments on the 2011/2012 Annual Financial Statements.

They made the following comments in respect to the "Audit Committee Report" to Council:

- Recoverable of Receivables
- Disclosure around Wittenoom (unrecovered liability)
- Recognition of Revenue
- Smooth Audit

Staff were requested to leave the room to discuss any matters in private with auditors.

F Ludovico left the room at 0740 am.

F Ludovico re-entered the room at 0742 am.

Committee Decision

Moved Commissioner Yureyovich

Seconded

That the Audit Committee recommend to Council the acceptance the 2011/2012 Independent Audit Report, Management Report and Annual Report.

CARRIED 1/0

The telephone call with the Auditor ended at 0743 am.

9. OTHER BUSINESS

10.NEXT MEETING

The next Audit Committee Meeting will be held at a time to be determined

11.CLOSURE OF MEETING

The Chairman declared the meeting closed at 0744 am.

5 February 2014

Mr N Hartley
Chief Executive Officer
Shire of Ashburton
PO Box 567
TOM PRICE WA 6751



Dear Neil

**AUDIT OF SHIRE OF ASHBURTON
FOR THE YEAR ENDED 30TH JUNE 2013**

We advise that we have completed the audit of your Shire for the year ended 30th June 2013 and enclose our Audit Report and a copy of the Management Report.

A copy of the Audit Report and Management Report has also been sent directly to the President as is required by the Act.

We would like to take this opportunity to thank you and your staff for the assistance provided during the audit.

Please contact us if you have any queries.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Wen-Shien Chai', with a large flourish at the end.

WEN-SHIEN CHAI
PARTNER

**INDEPENDENT AUDITOR'S REPORT
TO THE ELECTORS OF THE SHIRE OF ASHBURTON**

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of the Shire of Ashburton, which comprises the statement of financial position as at 30 June 2013, statement of comprehensive income by nature or type, statement of comprehensive income by program, statement of changes in equity, statement of cash flows and the rate setting statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the statement by Chief Executive Officer.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL REPORT

Management is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended) and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Shire's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Shire's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Council, as well as evaluating the overall presentation of the financial report.

We believe the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

AUDITOR'S OPINION

In our opinion, the financial report of the Shire of Ashburton is in accordance with the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended), including:

- a. giving a true and fair view of the Shire's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
- b. complying with Australian Accounting Standards, the Local Government Act 1995 (as amended) and the Local Government (Financial Management) Regulations 1996 (as amended).

**INDEPENDENT AUDITOR'S REPORT
TO THE ELECTORS OF THE SHIRE OF ASHBURTON (CONTINUED)**

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

During the course of the audit we became aware of the following instances where the Council did not comply with the Local Government Act 1995 and the Local Government (Financial Management) Regulations 1996 (as amended):

Power to Borrow

Whilst the unbudgeted loan for the development of Onslow Aerodrome Temporary Camp was approved with absolute majority by the Council, one month's local public notice of this proposal to borrow was not given as required by Section 6.20(2)(a) of the Local Government Act.

Budget Review

A copy of the budget review was not submitted to the Department within 30 days of its adoption as required by Local Government (Financial Management) Regulation 33A(4).

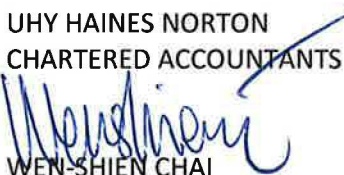
In accordance with the Local Government (Audit) Regulations 1996, we also report that:

- a) There are no matters that in our opinion indicate significant adverse trends in the financial position or the financial management practices of the Shire.
- b) Except as detailed above, no matters indicating non-compliance with Part 6 of the Local Government Act 1995 (as amended), the Local Government (Financial Management) Regulations 1996 (as amended) or applicable financial controls of any other written law were noted during the course of our audit.
- c) In relation to the Supplementary Ratio Information presented at page 67 of this report, we have reviewed the calculation for the Asset Consumption Ratio as presented and nothing has come to our attention to suggest it is not:
 - i) reasonably calculated; and
 - ii) based on verifiable information

The Asset Renewal Funding Ratio was not calculated and hence no review was carried out.

- d) All necessary information and explanations were obtained by us.
- e) All audit procedures were satisfactorily completed in conducting our audit.

Date: 5 February 2014
Perth, WA

UHY HAINES NORTON
CHARTERED ACCOUNTANTS

WEN-SHIEN CHAI
PARTNER

5 February 2014

The Shire President
Shire of Ashburton
PO Box 567
TOM PRICE WA 6751

Dear Cr White



MANAGEMENT REPORT FOR THE YEAR ENDED 30 JUNE 2013

We advise that we have completed our audit procedures for the year ended 30 June 2013 and enclose our Audit Report.

We are required under the Local Government Audit Regulations to report certain compliance matters in our audit report. Other matters which arise during the course of our audit that we wish to bring to Council's attention are raised in this management report.

It should be appreciated that our audit procedures are designed primarily to enable us to form an opinion on the financial statements and therefore may not bring to light all weaknesses in systems and procedures which may exist. However, we aim to use our knowledge of the Shire's organisation gained during our work to make comments and suggestions which, we hope, will be useful to you.

ACTUAL CARRIED FORWARD SURPLUS COMPARED TO 2013/2014 BUDGETED BROUGHT FORWARD SURPLUS

As the 2013/2014 budget was adopted prior to the 2012/2013 audited Financial Report being finalised, actual amounts were not available when calculating the surplus to be brought forward.

The closing position determined as per the audited 2012/2013 financial report is a surplus of \$153,995 whereas the amount used in the budget was a surplus of \$3,039,866.

Given the Shire has adopted a budget for 2013/2014 with a small carried forward deficit of \$20,000, this has resulted in the Shire having \$2,905,871 less than expected to fund its budgeted expenditure for the 2013/2014 financial year.

Management has advised us they are pursuing actions to maximise the cost recovery in respect of the Onslow Airport Development Project. The said shortfall will be considered and addressed along with the timing of major projects at the statutory mid-year review.

The shortfall arose mainly due to an audit adjustment relating to the timing of revenue streams which was uncertain with regards to the Onslow Airport Development Project.

To help ensure the Shire is able to meet its short term commitments as and when they fall due, the 2013/2014 budget should be carefully reviewed and expenditure modified in line with available resources.

We will continue to monitor the situation during our interim audit visit for the year ended 30 June 2014 and suggest it is prudent for Council to do so also.

COMMENT ON RATIOS

Due to legislative changes, this year saw the introduction of six new ratios in the financial report. Seven of the eight reported in previous years were removed with only the Current Ratio remaining.

Whilst we accept it may take some time for the implication of these newer ratios to be fully understood, we thought we would take this opportunity to make some comments in relation to them.

Current Ratio

Own Source Revenue Coverage Ratio

Debt Service Cover Ratio

Operating Surplus Ratio

Asset Sustainability Ratio

Asset Consumption Ratio

All of the above ratios appear to be above industry benchmark levels or operating within acceptable limits.

Current Ratio

The ratio for the year ended 30 June 2013 is 0.80 (2012: 1.24; 2011: 1.18). This ratio is a measure of short term (unrestricted) liquidity. That is, the ability of the Council to meet its liabilities (obligations) as and when they fall due.

Provided restricted assets are excluded correctly, it is a very useful indicator of the "true" financial position of Council, particularly in the short term. As a general rule, when the ratio is calculated at less than one (100%) it indicates a short term funding issue.

Discussions with Management have indicated that they are aware of the situation and have been carefully managing projects' cash flows including the ongoing negotiations with funding parties over the amount and timing of the contributions for the Onslow Airport Development project. Nevertheless, the weakening ratio coupled with the aforementioned shortfall is of some concern and will need to be addressed as Council moves forward.

We will continue to monitor this ratio in future financial years and suggest it is prudent for Council and management to do so also as they strive to manage the scarce resources of the Shire.

Asset Renewal Funding Ratio

This ratio indicates whether Council's planned capital renewal expenditure over the next 10 years as per its Long Term Financial Plan is sufficient to meet the required capital renewal expenditure over the next 10 years as per its Asset Management Plans.

This ratio has not been calculated as Council has not yet adopted its long term financial plan and asset management plans. Discussions with Management have indicated they expect these plans to be completed and adopted by March 2014.

To help identify gaps between planned and required capital expenditure, the Shire's asset management plan and long term financial plan should be completed and adopted by Council as soon as practicable. This also helps ensure compliance with new regulations relating to integrated planning (effective from 1 July 2013).

INVESTMENT POLICY

Our review of the Shire's investment policy regarding the restrictions on investment of money revealed it does not comply with Financial Management Regulation 19C.

Council should review its current investment policy to help ensure it is in line with the amended requirements.

PROBITY AUDIT

During our financial management review for the Shire in March 2013, we noted the Shire's level of statutory compliance in relation to probity processes were examined in August 2012. This examination had identified a number of compliance issues requiring Council's attention and we also raised some of the relevant issues in our review report for the CEO's attention at that time.

As a result of the probity review, the Shire implemented an action sheet to deal with these issues.

During our interim audit visit in July 2013 and final audit visit in November 2013, we noted the Shire has completed most of the planned actions to resolve those issues as identified in the audit.

We will continue to monitor the situation during our interim audit visit for the year ended 30 June 2014 and suggest it is prudent for Council to do so also.

We noted no other matters we wish to draw to Council's attention.

UNCORRECTED MISSTATEMENTS

We advise there were no uncorrected misstatements above \$10,000 noted by us during the course of our audit.

We take this opportunity to thank the Chief Executive Officer and all staff for the assistance provided during the audit. Should you wish to discuss any matter relating to the audit or any other matter, please do not hesitate to contact us.

Yours faithfully



WEN-SHIEN CHAI

PARTNER

Encl



Government of **Western Australia**
Department of **Local Government and Communities**

Our Ref: 5-13 E1332028

TO ALL LOCAL GOVERNMENTS

CIRCULAR N^o 39-2013

NEW OPERATIONAL GUIDELINE NO. 09 – AUDIT IN LOCAL GOVERNMENT

I am pleased to advise that a local government operational guideline has been revised and uploaded to the Department's website.

Operational Guideline No. 09 - *Audit in Local Government* is now available, replacing previous Guideline 09 - *Audit Committees in Local Government* and Guideline No.13 – *The Relationship Between Internal and External Audit*.

The revised Guideline provides information to assist local governments establish and operate an effective Audit Committee, as well as guidance relating to the Committee's role in the appointment of external auditors and in forming a view of the local government's internal audit requirements.

The revision also incorporates information regarding amendments to the *Local Government (Audit) Regulations 1996* that have extended the functions of local government Audit Committees.

These functions now include reviewing the Chief Executive Officer's report on the appropriateness and effectiveness of the local government's systems in regard to risk management, internal control and legislative compliance; and reporting the results of the Committee's consideration of that review, to the Council.

This report and review process is to occur at least once every two calendar years, with the first review of each of the three areas to be completed by the CEO, reviewed by the Audit Committee and reported to the Council, by 31 December 2014.

Appendix 3 to the Guideline covers issues that should be considered for inclusion in the Chief Executive Officer's review of risk management, internal control and legislative compliance.

This expansion of responsibilities for local government Audit Committees, together with the recent reduction to the size of the Compliance Audit Return, will enable local

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governments to better manage risk, internal control and legislative compliance within their own timeframes and with increased transparency and involvement for elected members.

New Guideline No. 09 can be downloaded from the Department's website
<http://dlg.wa.gov.au/Content/Publications/LGGuidelines.aspx>

For any queries regarding the Guideline, please contact Mr Andrew Borrett, Senior Project Officer, on 6552 1532 or at Andrew.Borrett@dlg.wa.gov.au



Jennifer Mathews
A/DIRECTOR GENERAL

17 December 2013



Audit in Local Government

The appointment, function and responsibilities of Audit Committees

Local Government Operational Guidelines – **Number 09** Revised September 2013

Audit in Local Government

The appointment, function and responsibilities of Audit Committees

1. Introduction

- 1 The *Local Government Act 1995* (the Act) requires that all local governments establish an audit committee. An audit committee plays a key role in assisting a local government to fulfil its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, legislative compliance, ethical accountability and the internal and external audit functions.
- 2 The purpose of this guideline is to assist local governments to establish and operate an effective audit committee. Clear and comprehensive terms of reference, setting out the committee's roles and responsibilities, are essential and a model terms of reference for an audit committee is provided with this guideline. Matters such as the governing legislation, membership, primary roles and responsibilities of the committee and ancillary functions are also addressed. Guidance is provided to the committee as it approaches its task of appointing an external auditor through provision of a minimum standard audit specification and as it forms an opinion of the local government's internal audit requirements.

2. Audit Requirements, Committees And Functions

- 3 The relevant parts of the Act and regulations that relate to audit requirements, audit committees and their functions are listed below.

Financial Management

- 4 In relation to financial management under Part 6 of the Act, a local government is to –
 - a) prepare and adopt an annual budget in the form and manner prescribed (s. 6.2). A copy of the budget is to be sent to the Department within 30 days of adoption.
 - b) prepare an annual financial report and such other financial reports as are prescribed. The accounts of the local government and annual financial report are to be submitted to the auditor for audit by 30 September (s. 6.4).
 - c) have a municipal fund and a separate and distinct trust fund (s. 6.6).

- d) establish and maintain reserve funds for the holding of monies set aside for future use (s. 6.11).

Audit Requirements for Local Governments

- 5 Part 7 of the Act and the *Local Government (Audit) Regulations 1996* (the Regulations) address the situation of audit. In relation to the duties of the local government with respect to audits –
 - a) the local government is to do everything in its power to –
 - i. assist the auditor to conduct an audit and carry out his or her other duties under the Act; and
 - ii. ensure that audits are conducted successfully and expeditiously;
 - b) a local government is to meet with its auditor at least once in every year;
 - c) a local government is to examine the report of the auditor and is to –
 - i. determine if any matters raised require action to be taken by the local government; and
 - ii. ensure that appropriate action is taken in respect of those matters;
 - d) a local government is to –
 - i. prepare a report on any actions taken in respect of any matters raised in the report of the auditor; and
 - ii. forward a copy of that report to the Minister by the end of the next financial year, or six months after the last report prepared by the auditor is received by the local government, whichever is the latest in time.

Establishment of the Audit Committee

- 6 The Act and Regulations provide that:
In relation to the establishment of an audit committee –

- a) each local government is to establish an audit committee consisting of three or more persons to exercise the powers and discharge the duties conferred on it;
- b) members of the committee are to be appointed by an absolute majority decision of Council. At least three of the members, and the majority of the members, are to be elected members;

- c) the CEO is not to be a member of the committee and may not nominate a person to be a member or have a person to represent him or her as a member of the committee;
- d) an employee is not to be a member of the committee;
- e) the only powers and duties that can be delegated to a committee are any of the powers and duties of the local government under Part 7 of the Act; that is, those relating to audit. The committee cannot on-delegate the powers and duties delegated to it;
- f) an audit committee with a member who is a person that is not an elected member can be delegated powers and duties referred to in (e); and
- g) a decision of the committee is to be made by simple majority.

Audit Committee Functions

- 7 The Regulations state that an audit committee –
- (a) is to provide guidance and assistance to the local government –
 - (i) as to the carrying out of its functions in relation to audits carried out under Part 7 of the Act; and
 - (ii) as to the development of a process to be used to select and appoint a person to be an auditor; and
 - (b) may provide guidance and assistance to the local government as to –
 - (i) matters to be audited; and
 - (ii) the scope of audits; and
 - (iii) its functions under Part 6 of the Act; and
 - (iv) the carrying out of its functions relating to other audits and other matters related to financial management; and
 - (c) is to review a report given to it by the CEO under regulation 17(3) (the CEO’s report) and is to –
 - (i) report to the council the results of that review; and
 - (ii) give a copy of the CEO’s report to the council.
 - (d) review the annual Compliance Audit Return and report to the council the results of that review, and
 - (e) consider the CEO’s biennial reviews of the appropriateness and effectiveness of the local government’s systems and procedures in regard to risk management, internal control and legislative compliance and report to the council the results of those reviews.

3. Operation of Audit Committees

Role and Responsibilities

- 8 The role of the audit committee is to support Council in fulfilling its governance and oversight responsibilities in relation to financial reporting, internal control structure, risk management systems, internal and external audit functions and ethical accountability.
- 9 The audit committee should critically examine the audit and management reports provided by the external auditor. The committee would then determine if matters raised in the reports require action to be taken by the local government and ensure that appropriate action is implemented.
- 10 A further role for the audit committee would be to receive and authorise the report relating to the audit prepared by the CEO that is to be sent to the Minister.

This report would outline any actions the local government has taken or intends to take in relation to the matters identified by the auditor.

- 11 While a formal internal audit function could be considered to be an operational function and therefore the responsibility of the CEO, it is desirable for an internal auditor to have a direct line of communication to the Audit Committee.

The Audit Committee needs to form an opinion of the local government’s internal audit requirements and recommend a course of action that ensures that any internal audit processes adopted are appropriate, accountable and transparent. The role of the external auditor in this regard can be established at the time of appointment.

Please note that an audit committee (or any other committee) cannot be given a management task where the Act and Regulations make the CEO specifically responsible. Where the local government is assigned the function through the legislation, the audit committee may have a role unless the function has been delegated to the CEO by the Council.

12 The deliberations and recommendations of the committee must be independent and autonomous. Therefore, the Act prohibits the CEO being a member of the committee. However, it is essential that the CEO be given every opportunity to provide his/her expert advice to the committee as he/she does with full Council and other committees.

13 A model terms of reference is attached as Appendix 1 to assist local governments to define an appropriate role for its audit committee. When considering the model, local governments need to remember it is a guide and they can delete or modify any matters they believe not applicable.

14 It is important to note that the legislation gives the audit committee a specific role in appointing the auditor. It is to recommend to the Council who should be appointed as the auditor. Attached as Appendix 2 is a model 'Minimum Standard Audit Specification' that local governments can use when developing a process to be used to select and appoint a person to be the auditor.

Local governments can amend the document to suit their individual requirements. Any scope adopted must meet, as a minimum, the legislative requirements, as outlined in the Act and the Regulations.

15 The legislation specifies that a local government is required to meet with its auditor at least once in every year. The term "local government" in this context means the Council. If Council so resolved via a formal delegation, a meeting between the audit committee and the auditor would satisfy this requirement.

16 It is acknowledged that the requirement to meet at least once per year may incur a significant financial burden for the more remote local governments. In such circumstances the meeting can be conducted by telephone or video conference. The Council or audit committee should resolve how the meeting with the auditor will be conducted and for the record of the meeting to show that the auditor was involved and the matters discussed. It would be inappropriate for Council representatives to meet with the auditor in their offices unless they were members of the Audit Committee or a significant majority of the members are present.

17 The committee may need to liaise regularly with the external auditor to discuss the audit plan, results of the audit and implementation of any recommendations for action emerging from the audit. How communication and liaison between auditor and committee is to occur should be addressed in the agreement of appointment.

18 Advice from the auditor may address issues such as –

- (i) an assessment of accounting procedures;
- (ii) an assessment of internal controls;
- (iii) an assessment of risk;
- (iv) compliance with the Act and associated regulations;
- (v) compliance with Council policies;
- (vi) performance assessments on the efficiency and effectiveness of operations;
- (vii) processes of the internal audit;
- (viii) outcomes of the external audit prior to issue of management and audit reports; and
- (ix) changes to accounting standards and legislation and the impact on the local government.

Membership

19 The Act requires that an audit committee is to consist of a minimum of 3 members and in that situation all must be council members. Where a committee consists of more than 3 members then a majority of those members must be council members. Local governments may decide to appoint a committee involving only elected members or they may appoint one or more persons who are external to the Council. If a Council considers it appropriate, the whole Council can be appointed to the audit committee.

20 If the local government wishes to appoint one or more persons other than elected members to the committee, which is recommended, it should ensure that they have the requisite knowledge and skills to provide benefit to the committee.

Operation of the Committee

21 Irrespective of the membership of the committee, all legislative requirements relating to committee meetings such as advertising meeting dates, notice of meeting and keeping minutes of meetings need to be complied with.

- 22 The legislation prevents a meeting fee being paid to an external person but it is permissible for a payment to be made as a reimbursement of expenses, commensurate with the expertise and knowledge such people bring to the committee. The Council will need to determine whether payment will be offered and the level of that reimbursement payment.
- 23 Members of the committee should be encouraged to attend appropriate courses to keep them up to date with legislation, accounting and other relevant issues.

Other Responsibilities

- 24 Local governments are required by legislation to complete a statutory compliance return (Compliance Audit Return or CAR) annually and have the return adopted by Council. The return is a checklist of a local government's compliance with the requirements of the Act and its Regulations, concentrating on areas of compliance considered "high risk."
- 25 The Audit Committee is to review the annual CAR and report to the Council the results of that review, prior to adoption of the return by Council. After adoption, the return is to be signed by the Mayor or President and the CEO prior to it being forwarded to the Department.
- 26 The Audit Committee is to consider the CEO's biennial reviews (see Regulation 17.) of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance and report to the council the results of those reviews.

Attached as Appendix 3 is information to assist in determining what falls within the terms 'risk management,' 'internal control' and 'legislative compliance.'

The audit committee could also consider proposals from the CEO as to whether the compliance audit, and the biennial reviews of risk management, internal control and legislative compliance, are undertaken internally or an external party is contracted to undertake the task. In the case of an external party the audit committee would have responsibility to receive the review report from the CEO and make recommendations on it to full Council.

4. The External Audit

Appointment of the Auditor

- 27 The Act and Regulations provide that –
- a) on the recommendation of the audit committee a local government is to from time to time appoint, by absolute majority, a person to be its auditor;
 - b) the local government may appoint one or more persons as its auditor;
 - c) the local government's auditor is to be a person who is –
 - a. a registered company auditor; or
 - b. an auditor approved by the Minister;
 - d) a person may not be appointed as a local government auditor if that person is -
 - a. a councillor or employee of the local government;
 - b. in debt to the local government for more than \$5,000;
 - c. a councillor or employee of a regional local government in which the local government is a participant;
 - d. a member of an incorporated association formed by the local government; or
 - e. a class of persons as prescribed in the Regulations;
 - e) an auditor is not to be appointed for more than five years; and
 - f) the appointment of a person as an auditor is to be made by agreement in writing and is to include –
 - i. the objectives of the audit;
 - ii. the scope of the audit;
 - iii. a plan for the audit;
 - iv. details of the remuneration and expenses to be paid to the auditor; and
 - v. the method to be used by the local government to communicate with, and supply information to, the auditor.
- 28 The committee should undertake a proper selection and appointment process as part of appointing, or reappointing an auditor. If reappointment is being considered, the process should include the review of key issues as in i. to v. above.

29 It is important to realise that the Act specifies that it is a named person(s) that is appointed as auditor, not the company, or 'the partners' of the company which employs the person. Therefore, when the audit report is received it must be signed by the person(s) appointed as the auditor; it cannot be the generic signature identifying the firm.

Conduct of the Audit

30 The Act and Regulations provide that –

- a) the auditor is required by 31 December next following the financial year to which the audit relates, to examine the accounts and annual financial report submitted for audit;
- b) the auditor is to form an opinion as to whether –
 - i. the accounts are properly kept; and
 - ii. the annual financial report –
 - is prepared in accordance with the financial records; and
 - represents fairly the results of the operations of the local government and its financial position at 30 June;
- c) the auditor is to prepare a report on the audit and within 30 days of completing the audit forward a copy to –
 - i. the mayor or president;
 - ii. the CEO of the local government; and
 - iii. the Minister;
- d) the report is to give the auditor's opinion on –
 - i. the financial position of the local government; and
 - ii. the results of the operation of the local government;
- e) the report is to include –
 - i. any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government;
 - ii. any matters indicating non-compliance with financial management requirements of the Act, Regulations and any other written law;
 - iii. details of whether information and explanations were obtained; and
 - iv. a report on the conduct of the audit; and
 - v. the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions.

- f) where it is considered appropriate to do so the auditor is to prepare a management report to accompany the auditor's report;
- g) where the auditor considers that –
 - i. there is any error or deficiency in an account or financial report;
 - ii. any money paid from, or due to the local government has been, or may have been misapplied; or
 - iii. there is a matter arising from the audit that needs to be addressed by the local government; details are to be included in the report to the Minister; and
- h) the auditor has a right of access at all reasonable times to such books, accounts, documents and assets of the local government as are in the opinion of the auditor necessary to allow the audit to be conducted.

Scope of the Audit

- 31 The Act and Regulations prescribe the scope of the external audit of the annual financial statements of a local government.
- 32 The scope details are going to vary between local governments but as an aid a model minimum standard audit specification is attached as Appendix 2 to this guideline. Individual local governments can amend that document to suit their particular needs.

Reporting by the Auditor

- 33 Regulations require the auditor, where appropriate, to prepare a management report to accompany the auditor's report. Although there is no legislative requirement for the auditor to prepare a management report unless he or she deems it appropriate, local government may wish to require the auditor to prepare a report on all issues identified during the audit.
- 34 The auditor, after completing the audit, is to forward a copy of his or her audit and management report to –
 - the Mayor or President;
 - the CEO of the local government; and
 - the Minister via the Department.

- 35 It is the CEO's responsibility to ensure that the external audit report is provided to the audit committee. In considering the audit and management reports presented to the audit committee, the CEO should:
- a) examine any critical matters raised in the reports that affect the financial position of the local government.
 - b) provide comment on any critical matters raised and action proposed to be taken to address those matters.
- 36 Once Council has addressed matters raised, or accepted the CEO's planned remedial action on matters raised in the audit and management reports, the CEO should provide feedback to the Department on those matters.

Appendix 1

Model Terms of Reference – Audit Committees

- 37 **Important:** The following Model Terms of Reference contains clauses that may not be applicable to each local government. Local governments will need to consider each clause and only adopt those that are applicable to the roles and responsibilities and delegated powers and functions that will apply to their audit committee.
- 38 The clauses that may be considered optional have been asterisked (*).

Objectives of Audit Committees

- 39 The primary objective of the audit committee is to accept responsibility for the annual external audit and liaise with the local government's auditor so that Council can be satisfied with the performance of the local government in managing its financial affairs.
- 40 Reports from the committee will assist Council in discharging its legislative responsibilities of controlling the local government's affairs, determining the local government's policies and overseeing the allocation of the local government's finances and resources. The committee will ensure openness in the local government's financial reporting and will liaise with the CEO to ensure the effective and efficient management of the local government's financial accounting systems and compliance with legislation.
- 41 The committee is to facilitate –
- the enhancement of the credibility and objectivity of *internal and external financial reporting;
 - *effective management of financial and other risks and the protection of Council assets;
 - compliance with laws and regulations as well as use of best practice guidelines relative to audit, risk management, internal control and legislative compliance;
 - *the coordination of the internal audit function with the external audit; and
 - the provision of an effective means of communication between the external auditor, *internal auditor, the CEO and the Council.

Powers of the Audit Committee

- 42 The Audit committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its term of reference. This is in order to facilitate informed decision-making by Council in relation to the legislative functions and duties of the local government that have not been delegated to the CEO.
- 43 The committee is a formally appointed committee of council and is responsible to that body. The committee does not have executive powers or authority to implement actions in areas over which the CEO has legislative responsibility and does not have any delegated financial responsibility. The committee does not have any management functions and cannot involve itself in management processes or procedures.

Membership

- 44 The committee will consist of *four members with three elected and *one external person. All members shall have full voting rights.
- 45 *External persons appointed to the committee will have business or financial management/reporting knowledge and experience, and be conversant with financial and other reporting requirements.
- 46 *Appointment of external persons shall be made by Council by way of a public advertisement and be for a maximum term of two years. The terms of the appointment should be arranged to ensure an orderly rotation and continuity of membership despite changes to Council's elected representatives.
- 47 *Reimbursement of approved expenses will be paid to each external person who is a member of the committee.
- 48 The CEO and employees are not members of the committee.
- 49 The CEO or his/her nominee is to be available to attend meetings to provide advice and guidance to the committee.
- 50 The local government shall provide secretarial and administrative support to the committee.

Meetings

- 51 The committee shall meet at least *quarterly.
- 52 Additional meetings shall be convened at the discretion of the presiding person.

Reporting

- 53 Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.
- 54 *The committee shall report annually to the Council summarising its activities during the previous financial year.

Duties and Responsibilities

- 55 The duties and responsibilities of the committee will be –
 - a) Provide guidance and assistance to Council as to the carrying out the functions of the local government in relation to audits;
 - b) Develop and recommend to Council an appropriate process for the selection and appointment of a person as the local government's auditor;
 - c) Develop and recommend to Council –
 - a list of those matters to be audited; and
 - the scope of the audit to be undertaken;
 - d) Recommend to Council the person or persons to be appointed as auditor;
 - e) Develop and recommend to Council a written agreement for the appointment of the external auditor. The agreement is to include –
 - the objectives of the audit;
 - the scope of the audit;
 - a plan of the audit;
 - details of the remuneration and expenses to be paid to the auditor; and
 - the method to be used by the local government to communicate with, and supply information to, the auditor;
 - f) Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;

- g) Liaise with the CEO to ensure that the local government does everything in its power to –
- assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
 - ensure that audits are conducted successfully and expeditiously;
- h) Examine the reports of the auditor after receiving a report from the CEO on the matters and –
- determine if any matters raised require action to be taken by the local government; and
 - ensure that appropriate action is taken in respect of those matters;
- i) Review the report prepared by the CEO on any actions taken in respect of any matters raised in the report of the auditor and presenting the report to Council for adoption prior to the end of the next financial year or 6 months after the last report prepared by the auditor is received, whichever is the latest in time;
- j) Review the scope of the audit plan and program and its effectiveness;
- k) *Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of Council or CEO (see reference to internal audit page 14);
- l) *Review the level of resources allocated to internal audit and the scope of its authority;
- m) *Review reports of internal audits, monitor the implementation of recommendations made by the audit and review the extent to which Council and management reacts to matters raised;
- n) *Facilitate liaison between the internal and external auditor to promote compatibility, to the extent appropriate, between their audit programs;
- o) *Review the local government's draft annual financial report, focusing on –
- accounting policies and practices;
 - changes to accounting policies and practices;
 - the process used in making significant accounting estimates;
 - significant adjustments to the financial report (if any) arising from the audit process;
 - compliance with accounting standards and other reporting requirements; and
 - significant variances from prior years;
- p) *Consider and recommend adoption of the annual financial report to Council. Review any significant changes that may arise subsequent to any such recommendation but before the annual financial report is signed;
- q) *Address issues brought to the attention of the committee, including responding to requests from Council for advice that are within the parameters of the committee's terms of reference;
- r) Seek information or obtain expert advice through the CEO on matters of concern within the scope of the committee's terms of reference following authorisation from the Council.
- s) Review the annual Compliance Audit Return and report to the council the results of that review, and
- t) Consider the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance, required to be provided to the committee, and report to the council the results of those reviews.

Internal Audit

- 56 Many local governments have recognised the need to improve their internal auditing processes, and have moved to either employ an internal auditor or contract out the internal audit function.
- 57 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 58 The scope of an internal audit would be determined by the Audit committee, with input from the CEO, based on the size of the local government's internal operations and the level of compliance to be achieved. The role differs from that of the external auditor who is appointed by council on the recommendation of the Audit Committee, to report independently to it, through the mayor/president and the CEO, on the annual financial statements. The external auditor's primary role is to decide whether the annual financial statements of a local government are free of material misstatement.

- 59 There are certain functions of the internal audit that complement the external auditor's role. As the external auditor plans for an effective audit they need to assess and determine whether to include the scope, procedures and outcomes of the internal audit. The CEO must refer all internal audit reports to the Audit Committee for consideration.
- 60 An internal auditor's activities should typically include the following:
- (a) review of the internal control structure, monitoring the operations of the information system and internal controls and providing recommendations for improvements;
 - (b) a risk assessment with the intention of minimising exposure to all forms of risk on the local government;
 - (c) examination of financial and operating information that includes detailed testing of transactions, balances and procedures;
 - (d) a review of the efficiency and effectiveness of operations and services including non-financial controls of a local government;
 - (e) a review of compliance with management policies and directives and any other internal requirements;
 - (f) review of the annual Compliance Audit Return, and
 - (g) assist in the CEO's biennial reviews of the appropriateness and effectiveness of the local government's systems and procedures in regard to risk management, internal control and legislative compliance.
 - (h) specific tasks requested by management.
- 61 For local government, the internal auditor should report functionally to the audit committee and administratively to the CEO. It should be remembered that pursuant to section 5.41 of the Act, the CEO is responsible for the day-to-day management of council activities including the direction of staff and implicitly the internal audit function. The CEO may choose to delegate this responsibility provided always that the delegation does not directly or indirectly interfere with the ability of the Internal Auditor to conduct an internal audit function free from interference.
- 62 A clear and properly defined reporting relationship ensures that the internal auditor is empowered to perform their role working with management. The direct reporting line to the audit committee also acts as an adequate safeguard in the event of a serious breakdown in internal controls or internal control culture at senior levels in the organisation.
- 63 While it is recognised that smaller councils may not be able to justify a full-time internal auditor, a small size of operation does not justify forgoing internal audit altogether. If audit committee or management is of the view that the employment of an independent internal auditor either full-time or part-time is not warranted, it may request the council to have the internal audit function undertaken as necessary by an external contractor, or expand the role of its external auditor.
- 64 The external auditor or his or her professional company should only undertake internal audit functions that complement the external audit and do not cloud the objectivity and independence of the external audit. An external auditor must not audit information prepared by them or their accounting practice, as this is considered incompatible with the standard of independence.
- 65 Local governments that do not establish an internal audit process but require a review of the financial management systems and procedures, may decide to use the services of the external auditor for that purpose. Such reviews are to be undertaken every four years in accordance with regulation 5(2)(c) of the *Local Government (Financial Management) Regulations 1996*.
- 66 The review of financial management systems and procedures provides the external auditor with greater assurance of systems and procedures used to prepare the annual financial statements, and whether they provide information free of material misstatement.

Appendix 2

Model Minimum Standard Audit Specification

67 **Important:** The following Model Minimum Standard Audit Specification may be used as the basis for the calling of tenders or seeking of quotes for the appointment of an auditor. Local governments need to consider the Model to ensure that only those clauses applicable to its requirements are used. This applies, in particular, to the “Critical matters to be audited”.

Introduction

68 This document is provided for the assistance of auditors who wish to apply for the role of auditor with the City/Town/Shire.

69 Auditors are required to address all of the matters outlined in the specification.

70 Auditors who submit an application may be asked to provide further information and/or make a presentation to the audit committee.

Objectives of the Audit

71 To provide an independent audit opinion of the accounts and annual financial reports of the local government for each financial year covered by the term of the audit appointment.

Term of Audit Appointment

72 For the financial years commencing 1 July through to 30 June..... (not more than 5 years)

Scope of the Audit

73 The auditor is to –

Carry out such work as is necessary to form an opinion as to whether –

- (a) the accounts are properly kept; and
- (b) the annual financial report –
 - (i) is prepared in accordance with the financial records; and

- (ii) represents fairly the results of the operations of the local government and the financial position of the local government at 30 June in accordance with the Australian Accounting Standards, the *Local Government Act 1995* (as amended)(the Act), the Local Government (Financial Management) Regulations 1996 (as amended) and other mandatory professional reporting requirements;

Give an opinion in his or her audit report on –

- (a) the financial position of the local government; and
- (b) the results of the operation of the local government;

74 Include in his or her audit report –

- (a) any material matters that indicate significant adverse trends in the financial position or the financial management practices of the local government; and
- (b) any matters indicating non-compliance with financial management or control requirements of the Act, Regulations and any other written law; and
- (c) details of whether information and explanations were obtained by the auditor; and
- (d) a report on the conduct of the audit; and
- (e) the opinion of the auditor as to whether or not the specific financial ratios reported are supported by verifiable information and reasonable assumptions.

Audit Methodology and Approach

75 Other requirements of the Auditor –

- (a) The auditor is required to comply with the requirements of section 7.9 of the *Local Government Act 1995* and the *Local Government (Audit) Regulations 1996*;
- (b) An audit is to be carried out in accordance with accounting standards adopted from time to time by the Australian Government Auditing and Assurance Standards Board (AuASB);
- (c) The auditor is to provide the local government with a general outline of his/her methodology;

- (d) The auditor is to provide the local government with a plan for the audit including –
- timing of interim audit visits;
 - final audit visit (within 30 days of being advised that the accounts and annual financial report are available for audit);
 - timing of the legislative requirement to meet with the local government and whether that meeting will be in person or by some other means; and
 - the method to be used to communicate with, and provide advice and information to, the local government; and
- (e) The auditor is required to produce an audit report as required by section 7.9 of the *Local Government Act 1995* and, if considered appropriate by the auditor, a management report.

Critical Matters to be Audited

76 The auditor is to include in his or her application the extent to which the critical matters outlined below will be audited so as to form an opinion on the manner in which they have been maintained.

- (i) Revenue
- Rates revenue
 - Government grants
 - User pays revenue
 - Profit on sale of non-current assets
 - Other income
- (ii) Expenditure
- Salary and wage costs
 - Depreciation
 - Materials and contract expenditure
 - Loss on sale of non-current assets
 - Insurances
 - Bad debts
 - Other expenditure
- (iii) Current Assets
- Bank and short term investments
 - Receivables and prepayments
 - Inventory
- (iv) Non-Current Assets
- Property, plant, furniture and equipment
 - Infrastructure and depreciation
 - Other receivables

- (v) Liabilities (Current and non-current)
- Creditors and accruals
 - Loan borrowings including new loans raised
 - Provision for annual and long service leave entitlements
- (vi) Reserve Funds
- (vii) Contingent Liabilities
- (viii) Capital Commitments
- (ix) Accounting Policies and Notes to the Financial Statements
- (x) Cash Flow Statement
- (xi) The financial ratios required by the *Local Government (Financial Management) Regulations 1996*

Hours, Fees and Expenditure

77 The auditor is to provide –

- Estimate of the time to be spent on the audit;
- Fees for completing the audit in accordance with this specification;
- Nominated auditor(s) and registered company audit number(s); and
- Experience of the nominated auditors in completing local government audits.

78 The auditor is to provide a fee for any additional audit requested by Council.

Terms

79 Conditions to be noted by auditors –

- The auditor shall not sub contract to a third party;
- The auditor shall not, and has no right to, assign the audit contract to third parties;
- The auditor shall not be engaged by the local government to undertake any financial consultancy with the local government that requires the preparation of financial information that will be the subject of the annual audit; and
- The auditor shall confirm that he or she has, and will maintain during the duration of the audit term, professional indemnity insurance covering the legal liability arising out of any neglect, default, error, or omission.

Termination of Appointment

- 80 The appointment as auditor is terminated if –
- (a) the auditor ceases to be a registered company auditor;
 - (b) the auditor ceases to be an approved auditor under Section 7.5 of the *Local Government Act 1995*;
 - (c) the auditor is a disqualified person under Section 7.4(2) of the *Local Government Act 1995*;
 - (d) the auditor resigns by notice in writing to Council; or
 - (e) Council serves notice in writing to the auditor terminating the appointment.

Appendix 3

Issues that should be considered for inclusion in the CEO's Review of Risk Management, Internal Control and Legislative Compliance

Please note: Section 7 of the Department's Western Australian Local Government Accounting Manual provides a comprehensive internal control framework related to internal control and risk management.

Risk Management

- 81 Internal control and risk management systems and programs are a key expression of a local government's attitude to effective controls. Good audit committee practices in monitoring internal control and risk management programs typically include:
- Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered.
 - Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time.
 - Assessing the internal processes for determining and managing material operating risks in accordance with the local government's identified tolerance for risk, particularly in the following areas:
 - potential non-compliance with legislation, regulations and standards and local government's policies
 - important accounting judgements or estimates that prove to be wrong
 - litigation and claims
 - misconduct, fraud and theft
 - significant business risks, recognising responsibility for general or specific risk areas, for example, environmental risk, occupational health and safety, and how they are managed by the local government.
 - Obtaining regular risk reports, which identify key risks, the status and the effectiveness of the risk management systems, to ensure that identified risks are monitored and new risks are identified, mitigated and reported.

- Assessing the adequacy of local government processes to manage insurable risks and ensure the adequacy of insurance cover, and if applicable, the level of self-insurance.
- Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors.
- Assessing whether management has controls in place for unusual types of transactions and/or any potential transactions that might carry more than an acceptable degree of risk.
- Assessing the local government's procurement framework with a focus on the probity and transparency of policies and procedures/processes and whether these are being applied.
- Should the need arise, meeting periodically with key management, internal and external auditors, and compliance staff, to understand and discuss any changes in the local government's control environment.
- Ascertaining whether fraud and misconduct risks have been identified, analysed, evaluated, have an appropriate treatment plan which has been implemented, communicated, monitored and there is regular reporting and ongoing management of fraud and misconduct risks.

Internal Control

- 82 Internal control is a key component of a sound governance framework, in addition to leadership, long-term planning, compliance, resource allocation, accountability and transparency. Strategies to maintain sound internal controls are based on risk analysis of the internal operations of a local government.
- 83 An effective and transparent internal control environment is built on the following key areas:
- integrity and ethics.
 - policies and delegated authority.
 - levels of responsibilities and authorities.
 - audit practices.
 - information system access and security.
 - management operating style.
 - human resource management and practices.

84 Internal control systems involve policies and procedures that safeguard assets, ensure accurate and reliable financial reporting, promote compliance with legislation and achieve effective and efficient operations and may vary depending on the size and nature of the local government.

85 Aspects of an effective control framework will include:

- delegation of authority.
- documented policies and procedures.
- trained and qualified employees.
- system controls.
- effective policy and process review.
- regular internal audits.
- documentation of risk identification and assessment.
- regular liaison with auditor and legal advisors.

86 The following are examples of controls that are typically reviewed:

- separation of roles and functions, processing and authorisation;
- control of approval of documents, letters and financial records;
- comparison of internal data with other or external sources of information;
- limit of direct physical access to assets and records;
- control of computer applications and information system standards;
- limit access to make changes in data files and systems;
- regular maintenance and review of financial control accounts and trial balances;
- comparison and analysis of financial results with budgeted amounts;
- the arithmetical accuracy and content of records;
- report, review and approval of financial payments and reconciliations;
- comparison of the result of physical cash and inventory counts with accounting records.

Legislative Compliance

87 The compliance programs of a local government are a strong indication of attitude towards meeting legislative requirements. Audit committee practices in regard to monitoring compliance programs typically include:

- Monitoring compliance with legislation and regulations.
- Reviewing the annual Compliance Audit Return and reporting to Council the results of that review.
- Staying informed about how management is monitoring the effectiveness of its compliance and making recommendations for change as necessary.
- Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints.
- Obtaining assurance that adverse trends are identified and review management's plans to deal with these.
- Reviewing management disclosures in financial reports of the effect of significant compliance issues.
- Reviewing whether the internal and / or external auditors have regard to compliance and ethics risks in the development of their audit plan and in the conduct of audit projects, and report compliance and ethics issues to the audit committee.
- Considering the internal auditor's role in assessing compliance and ethics risks in their plan.
- Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements.
- Complying with legislative and regulatory requirements imposed on audit committee members, including not misusing their position to gain an advantage for themselves or another or to cause detriment to the local government and disclosing conflicts of interest.

Further Information

For more information about this and other guidelines, contact the Advice and Support Branch of the Department of Local Government and Communities:

Tel: (08) 6551 8700

Fax: (08) 6552 1555

Freecall: 1800 620 511 (Country Only)

Translating and Interpreting Service (TIS) – Tel: 13 14 50

Local Government Advisory Hotline

Tel: 1300 762 511

Email: lghotline@dlgc.wa.gov.au

Opening Hours: 8.30am - 5.00pm, Monday to Friday

These guidelines are also available on the Department's website at www.dlgc.wa.gov.au

About the Guideline Series

This Guideline and others in the series are intended as a guide to good practice and should not be taken as a compliance requirement. The content is based on Departmental officers' knowledge, understanding, observation of, and appropriate consultation on contemporary good practice in local government. Guidelines may also involve the Department's views on the intent and interpretation of relevant legislation. All guidelines are subject to review, amendment and republishing as required. Therefore, comments on any aspect of the guideline are welcome. Suggested topics for future guidelines would also be welcome.