



**City of Belmont**

# **Attachments**

## **Standing Committee (Audit and Risk) Meeting**

**Held  
25 February 2019**



# **Standing Committee (Audit and Risk)**

**Item 10.1 refers**

## **Attachment 1**

**Office of the Auditor General -  
Agenda**





## Entrance Meeting

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### ANNUAL FINANCIAL AUDIT OF THE CITY OF BELMONT FOR THE YEAR ENDED 30 JUNE 2019

#### ATTENDEES:

##### City of Belmont

Cr George Sekulla	Audit Committee, Presiding Member
Cr Margie Bass	Audit Committee, Deputy Presiding Member
Cr Phil Marks	Councillor
Cr Jenny Davis	Councillor
Ron Back	Independent Member
John Christie	Chief Executive Officer
Robin Garrett	Executive Director, Corporate and Governance
Stuart Monks	Finance Manager
Rohit Das	IT Manager
Jim Olynky	Manager Governance
Melinda Lymon	Principal Governance and Compliance Advisor
Eleanor Whiteley	Compliance Administrator
Sue D'Agnone	Governance Officer

##### Office of the Auditor General

Don Cunninghame	Assistant Auditor General, Financial Audit
Subha Gunalan	Director, Financial Audit
Renuka Venkatraman	Assistant Director, Financial Audit
Kamran Aslam	A/Associate Director, Information Systems Audit

#### Interview Date & Time:

25<sup>th</sup> February 2019 at 6.30pm

#### Location:

Belmont Civic Centre

## Agenda

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1. Introduction
2. Planning Summary, including:
  - Significant aspects of this year's audit
  - Audit Approach
  - Key Requirements and Schedule for Providing Information
3. Closing Comments



# **Standing Committee (Audit and Risk)**

**Item 10.1 refers**

## **Attachment 2<sup>1</sup>**

### **Office of the Auditor General – Audit Planning Summary**

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<sup>1</sup> Following advice from the Office of the Auditor General, this document is now confidential.





# **Standing Committee (Audit and Risk)**

**Item 10.2 refers**

## **Attachment 3**

**2018 Audit Plan**

# City of Belmont 2018 Audit Plan

## Legend

OSA	Organisational Self Assessment (Conducted 3 yearly - due 2020)
CAR	Statutory Compliance Audit
BI	Business Improvement Review
E	BMS External Audit - SGS
I	Integrated Internal Audit (QM/ENV/OSH)
F	Financial Auditors

2018													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Tier 1	BMS Review												
Tier 2	System Procedures												
Tier 3	Corporate & Governance												
	Finance	CAR	CAR								I		
	Governance	CAR	CAR	F	E				F		I		
	Information Technology	CAR	CAR		E						I		
	Marketing & Communications	CAR	CAR		E						I		
	Property & Economic Development	CAR	CAR		E						I		
	Technical Services	CAR	CAR		E						I		
	Parks & Environment	CAR	CAR		E						I		
	Design & Assets	CAR	CAR		E						I		
	Works	CAR	CAR		E						I		
	Infrastructure Development	CAR	CAR		E						I		
	Community & Statutory Services	CAR	CAR			E						I	
	Community Place Making	CAR	CAR			E						I	
	Building Services	CAR	CAR			E						I	
	Health & Community Safety	CAR	CAR			E						I	
	Community Development	CAR	CAR			E						I	
	Planning Services	CAR	CAR			E						I	
	CEO	CAR	CAR			E						I	
	CEO Office	CAR	CAR			E						I	
	Human Resources	CAR	CAR			E						I	

NOTE: This plan is indicative on the impact of the audit schedule, as such all parts of the organisation may be identified for audit though this will depend on possible random sampling or statutory requests.



# **Standing Committee (Audit and Risk)**

**Item 10.2 refers**

## **Attachment 4**

**2018 Audit - Actuals**

Legend	Organisational Self Assessment (Conducted 3 yearly - due 2020)
OSA	Statutory Compliance Audit
CAR	Business Improvement Review
BI	BMS External Audit - SGS
E	Integrated Internal Audit (QM/ENV/OSH)
I	Financial Auditors
F	Focus Audit - Office of Auditor General
OAG	External Audit
EXT	Statutory Reviews
REV	Variations to Audit Plan

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# **Standing Committee (Audit and Risk)**

**Item 11.2 refers**

## **Attachment 5**

**2018 Compliance Audit Return**



Department of  
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## Belmont - Compliance Audit Return 2018

Commercial Enterprises by Local Governments					
No	Reference	Question	Response	Comments	Respondent
1	s3.59(2)(a)(b)(c) F&G Reg 7,9	Has the local government prepared a business plan for each major trading undertaking in 2018.	N/A	The City did not undertake a major trading undertaking in 2018.	Eleanor Whiteley
2	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan for each major land transaction that was not exempt in 2018.	N/A	The City did not undertake a major land transaction during 2018.	Eleanor Whiteley
3	s3.59(2)(a)(b)(c) F&G Reg 7,10	Has the local government prepared a business plan before entering into each land transaction that was preparatory to entry into a major land transaction in 2018.	N/A	The City did not enter into a land transaction that was preparatory to entry into a major land transaction in 2018.	Eleanor Whiteley
4	s3.59(4)	Has the local government given Statewide public notice of each proposal to commence a major trading undertaking or enter into a major land transaction for 2018.	N/A	The City did not commence a major trading undertaking nor enter into a major land transaction in 2018.	Eleanor Whiteley
5	s3.59(5)	Did the Council, during 2018, resolve to proceed with each major land transaction or trading undertaking by absolute majority.	N/A	Council was not required to vote on either a major land transaction or trading undertaking in 2018.	Eleanor Whiteley



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## Belmont - Compliance Audit Return 2018

Delegation of Power / Duty					
No	Reference	Question	Response	Comments	Respondent
1	s5.16, 5.17, 5.18	Were all delegations to committees resolved by absolute majority.	Yes	Delegated Authority Register resolved by absolute majority - reviewed OCM 26/6/18 Item 12.8. ECM#4257189. No Delegations to committees.	Eleanor Whiteley
2	s5.16, 5.17, 5.18	Were all delegations to committees in writing.	N/A	No delegations to committees.	Eleanor Whiteley
3	s5.16, 5.17, 5.18	Were all delegations to committees within the limits specified in section 5.17.	N/A	No delegations to committees.	Eleanor Whiteley
4	s5.16, 5.17, 5.18	Were all delegations to committees recorded in a register of delegations.	N/A	No delegations to committees.	Eleanor Whiteley
5	s5.18	Has Council reviewed delegations to its committees in the 2017/2018 financial year.	Yes	Reviewed OCM 26/6/18 Item 12.8. ECM#4257189.	Eleanor Whiteley
6	s5.42(1), 5.43 Admin Reg 18G	Did the powers and duties of the Council delegated to the CEO exclude those as listed in section 5.43 of the Act.	Yes	OCM 26/6/18 Item 12.8. ECM#4257189.	Eleanor Whiteley
7	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO resolved by an absolute majority.	Yes	OCM 26/6/18 Item 12.8. ECM#4257189.	Eleanor Whiteley
8	s5.42(1)(2) Admin Reg 18G	Were all delegations to the CEO in writing.	Yes	OCM 26/6/18 Item 12.8. ECM#4257189.	Eleanor Whiteley
9	s5.44(2)	Were all delegations by the CEO to any employee in writing.	Yes	ECM Folder 11/005 - refer to physical folder maintained in Compliance unit.	Eleanor Whiteley
10	s5.45(1)(b)	Were all decisions by the Council to amend or revoke a delegation made by absolute majority.	N/A	There were no decisions to amend or revoke a delegation in 2018.	Eleanor Whiteley
11	s5.46(1)	Has the CEO kept a register of all delegations made under the Act to him and to other employees.	Yes	ECM Folder 11/005.	Eleanor Whiteley
12	s5.46(2)	Were all delegations made under Division 4 of Part 5 of the Act reviewed by the delegator at least once during the 2017/2018 financial year.	Yes	CEO sub delegations reviewed as part of the overall review of the Council delegations process. Considered at ELT Meeting.	Eleanor Whiteley
13	s5.46(3) Admin Reg 19	Did all persons exercising a delegated power or duty under the Act keep, on all occasions, a written record as required.	Yes	Exercise of Delegations Register maintained in the Compliance unit. ECM11/005	Eleanor Whiteley



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## Belmont - Compliance Audit Return 2018

Disclosure of Interest					
No	Reference	Question	Response	Comments	Respondent
1	s5.67	If a member disclosed an interest, did he/she ensure that they did not remain present to participate in any discussion or decision-making procedure relating to the matter in which the interest was disclosed (not including participation approvals granted under s5.68).	Yes	Two (2) instances of Disclosure of an interest. ECM#3738381 (OCM 24/4/18 - member left the meeting during voting/discussion). ECM#3899751 (OCM 23/10/18 - member left the meeting during voting/discussion).	Eleanor Whiteley
2	s5.68(2)	Were all decisions made under section 5.68(1), and the extent of participation allowed, recorded in the minutes of Council and Committee meetings.	N/A	No instances occurred.	Eleanor Whiteley
3	s5.73	Were disclosures under section 5.65 or 5.70 recorded in the minutes of the meeting at which the disclosure was made.	Yes	Yes evidenced by the Minutes for Ordinary Council Meetings held 24/4/18 and 23/10/18.	Eleanor Whiteley
4	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly elected members within three months of their start day.	N/A	No elections held in 2018.	Eleanor Whiteley
5	s5.75(1) Admin Reg 22 Form 2	Was a primary return lodged by all newly designated employees within three months of their start day.	Yes	Yes ECM Folder 163/001. Physical register maintained within the Compliance unit and monitored by the Compliance Administrator.	Eleanor Whiteley
6	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all continuing elected members by 31 August 2018.	Yes	Yes. CEO Memo sent to elected members. All annual returns received by 31/8/2018. View ECM 163/001 Disclosures Hold. Physical register maintained by Compliance Administrator and held in Compliance Unit.	Eleanor Whiteley
7	s5.76(1) Admin Reg 23 Form 3	Was an annual return lodged by all designated employees by 31 August 2018.	Yes	CEO memo sent to ELT and designated employees. All returns received by 31/8/18. ECM Folder 163/001. Physical Registers maintained by Compliance Administrator and held in Compliance unit.	Eleanor Whiteley





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No	Reference	Question	Response	Comments	Respondent
8	s5.77	On receipt of a primary or annual return, did the CEO, (or the Mayor/ President in the case of the CEO's return) on all occasions, give written acknowledgment of having received the return.	Yes	Procedure in receipting primary/ annual returns are outlined in the following documents WI - Manage Primary (Financial) Returns and WI - Manage Annual (Financial Returns). Acknowledgement of receipt memos are recorded on ECM with each completed return found in ECM Folder 163/001 Disclosures Hold	Eleanor Whiteley
9	s5.88(1)(2) Admin Reg 28	Did the CEO keep a register of financial interests which contained the returns lodged under section 5.75 and 5.76	Yes	Physical returns files maintained by Compliance Administrator and located within the Compliance area. Electronic Register (ECM Folder 164/001 Document ID #3661806 Financial Interests Primary & Annual Register	Eleanor Whiteley
10	s5.88(1)(2) Admin Reg 28	Did the CEO keep a register of financial interests which contained a record of disclosures made under sections 5.65, 5.70 and 5.71, in the form prescribed in Administration Regulation 28.	Yes	Procedure in declaring and recording disclosures made under sections 5.65, 5.70 and 5.71 is outlined in WI - Disclosures of Interest That May Cause Conflict. Physical register is also located in the Compliance area and is maintained by the Compliance Administrator. The current Disclosure of Interests form used by the City is deemed compliant with that prescribed Administration Regulation 28.	Eleanor Whiteley
11	s5.88 (3)	Has the CEO removed all returns from the register when a person ceased to be a person required to lodge a return under section 5.75 or 5.76.	Yes	Physical Register maintained and located within the Compliance area does not contain returns of employees and Elected Members who have left the City. This process is monitored bi - monthly in the Compliance Calendar and through notification from HR at the end of employment of any employee.	Eleanor Whiteley



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No	Reference	Question	Response	Comments	Respondent
12	s5.88(4)	Have all returns lodged under section 5.75 or 5.76 and removed from the register, been kept for a period of at least five years, after the person who lodged the return ceased to be a council member or designated employee.	Yes	All returns that have been removed from the Register are maintained by the Records Unit in accordance with the General Disposal Authority for Local Government Records. (To be destroyed 7 years after the employee or Elected Member separates from the organisation). Electronic versions are moved to ECM Folder 163/002 Expired Disclosures	Eleanor Whiteley
13	s5.103 Admin Reg 34C & Rules of Conduct Reg 11	Where an elected member or an employee disclosed an interest in a matter discussed at a Council or committee meeting where there was a reasonable belief that the impartiality of the person having the interest would be adversely affected, was it recorded in the minutes.	Yes	OCM 11/12/18 Item 12.2 ECM#4223169 OCM 20/11/2018 Item 12.1 ECM#4202063; #4202040 OCM 26/6/2018 Item 12.2 ECM#3794935 ; Item 12.6 ECM#3793898  Folder 163/001 Register 164/001	Eleanor Whiteley
14	s5.70(2)	Where an employee had an interest in any matter in respect of which the employee provided advice or a report directly to the Council or a Committee, did that person disclose the nature of that interest when giving the advice or report.	Yes	No instances occurred for in ABF/OCM. Information Forum 11/9/18 ECM# 3862650 Folder 163/001	Eleanor Whiteley
15	s5.70(3)	Where an employee disclosed an interest under s5.70(2), did that person also disclose the extent of that interest when required to do so by the Council or a Committee.	Yes	Standard inclusion in report templates and in minutes. CEO declared interests for OCM 24/4/18# 3756212 & 22/5/18 #3759883& 25/9/18 #3862695 : Executive Committee 13/8/18 #3835119	Eleanor Whiteley



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No	Reference	Question	Response	Comments	Respondent
16	s5.103(3) Admin Reg 34B	Has the CEO kept a register of all notifiable gifts received by Council members and employees.	Yes	The CEO keeps physical copies of gift & hospitality declarations for Council members and employees in the Governance area. The following electronic registers are maintained: -Register of Gifts & Hospitality (ECM#2991977); Contribution to Travel (ECM#2991977). ECM Folder 164/002. The Registers are also available on the City's website under Council/Public Registers. All notifications of gifts/hospitality /contributions to travel are recorded on ECM Folder 163/003 Gift & Hospitality Disclosures Hold	Eleanor Whiteley



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## Belmont - Compliance Audit Return 2018

Disposal of Property					
No	Reference	Question	Response	Comments	Respondent
1	s3.58(3)	Was local public notice given prior to disposal for any property not disposed of by public auction or tender (except where excluded by Section 3.58(5)).	N/A	The City did not dispose of any property pursuant to Section 3.58(3) during 2018	Eleanor Whiteley
2	s3.58(4)	Where the local government disposed of property under section 3.58(3), did it provide details, as prescribed by section 3.58(4), in the required local public notice for each disposal of property.	N/A	The City did not dispose of any property pursuant to Section 3.58(3) during 2018	Eleanor Whiteley

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## Belmont - Compliance Audit Return 2018

Finance					
No	Reference	Question	Response	Comments	Respondent
1	s7.1A	Has the local government established an audit committee and appointed members by absolute majority in accordance with section 7.1A of the Act.	Yes	Yes: SCM 23/10/2017 ECM Doc Set ID 3608175	Eleanor Whiteley
2	s7.1B	Where a local government determined to delegate to its audit committee any powers or duties under Part 7 of the Act, did it do so by absolute majority.	N/A	N/A: No delegation vested in Committees.	Eleanor Whiteley
3	s7.3	Was the person(s) appointed by the local government to be its auditor, a registered company auditor.	N/A	N/A: No appointment during 2018 as the auditor is now the Office of the Auditor General as appointed through an amendment to the Financial Management Reg's.	Eleanor Whiteley
4	s7.3, 7.6(3)	Was the person or persons appointed by the local government to be its auditor, appointed by an absolute majority decision of Council.	N/A	N/A: No appointment during 2018 as the auditor is now the Office of the Auditor General as appointed through an amendment to the Financial Management Reg's.	Eleanor Whiteley
5	Audit Reg 10	Was the Auditor's report for the financial year ended 30 June 2018 received by the local government within 30 days of completion of the audit.	Yes	Yes: Audit concluded 23 /10 /18, report received 31/10/18, Doc Set ID 3906551	Eleanor Whiteley
6	s7.9(1)	Was the Auditor's report for the financial year ended 30 June 2018 received by the local government by 31 December 2018.	Yes	Yes: Audit concluded 23 /10 /18, report received 31/10/18, Doc Set ID 3906551	Eleanor Whiteley
7	S7.12A(3)	Where the local government determined that matters raised in the auditor's report prepared under s7.9 (1) of the Act required action to be taken by the local government, was that action undertaken.	N/A	No matters raised.	Eleanor Whiteley
8	S7.12A (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9 (1) of the Act) required action to be taken by the local government, was a report prepared on any actions undertaken.	N/A	No matters raised.	Eleanor Whiteley



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No	Reference	Question	Response	Comments	Respondent
9	S7.12A (4)	Where the local government determined that matters raised in the auditor's report (prepared under s7.9 (1) of the Act) required action to be taken by the local government, was a copy of the report forwarded to the Minister by the end of the financial year or 6 months after the last report prepared under s7.9 was received by the local government whichever was the latest in time.	N/A	No matters raised.	Eleanor Whiteley
10	Audit Reg 7	Did the agreement between the local government and its auditor include the objectives of the audit.	Yes	Yes: Doc Set ID 3731149	Eleanor Whiteley
11	Audit Reg 7	Did the agreement between the local government and its auditor include the scope of the audit.	Yes	Yes: Doc Set ID 3731149	Eleanor Whiteley
12	Audit Reg 7	Did the agreement between the local government and its auditor include a plan for the audit.	Yes	Yes: Doc Set ID 3731149	Eleanor Whiteley
13	Audit Reg 7	Did the agreement between the local government and its auditor include details of the remuneration and expenses to be paid to the auditor.	Yes	Yes: Doc Set ID 3731149	Eleanor Whiteley
14	Audit Reg 7	Did the agreement between the local government and its auditor include the method to be used by the local government to communicate with, and supply information to, the auditor.	Yes	Yes: Doc Set ID 3731149	Eleanor Whiteley
15	Audit Reg 17	Has the CEO reviewed the appropriateness and effectiveness of the local government's systems and procedures in accordance with regulation 17 of the Local Government (Audit) Regulations 1996.	Yes	Yes: The City's auditor's were engaged to carry out a review during Nov and Dec 2018. Results are likely to be reported to Council in Feb 2019	Eleanor Whiteley
16	Audit Reg 17	If the CEO has not undertaken a review in accordance with regulation 17 of the Local Government (Audit) Regulations 1996, is a review proposed and when.	N/A	See above	Eleanor Whiteley



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## Belmont - Compliance Audit Return 2018

Integrated Planning and Reporting					
No	Reference	Question	Response	Comments	Respondent
1	s5.56 Admin Reg 19DA (6)	Has the local government adopted a Corporate Business Plan. If Yes, please provide adoption date of the most recent Plan in Comments. This question is optional, answer N/A if you choose not to respond.	Yes	Yes: Corporate Business Plan 2018-2022 Adopted at OCM 27.2.2018 Item 12.8 ECM Doc Set ID3831613	Eleanor Whiteley
2	s5.56 Admin Reg 19DA (6)	Has the local government adopted a modification to the most recent Corporate Business Plan. If Yes, please provide adoption date in Comments. This question is optional, answer N/A if you choose not to respond.	Yes	Yes: OCM 27.2.2018 Item 12.8 ECM Doc Set ID3831613	Eleanor Whiteley
3	s5.56 Admin Reg 19C (7)	Has the local government adopted a Strategic Community Plan. If Yes, please provide adoption date of the most recent Plan in Comments. This question is optional, answer N/A if you choose not to respond.	Yes	Yes: Strategic Community Plan 2016-2036 KPI Review OCM 27.2.2018 Item 12.7 ECM Doc Set ID3831613	Eleanor Whiteley
4	s5.56 Admin Reg 19C (7)	Has the local government adopted a modification to the most recent Strategic Community Plan. If Yes, please provide adoption date in Comments. This question is optional, answer N/A if you choose not to respond.	Yes	Yes: Strategic Community Plan 2016-2036 KPI Review OCM 27.2.2018 Item 12.7 ECM Doc Set ID3831613	Eleanor Whiteley



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No	Reference	Question	Response	Comments	Respondent
5	S5.56	Has the local government adopted an Asset Management Plan. If Yes, in Comments please provide date of the most recent Plan, plus if adopted or endorsed by Council the date of adoption or endorsement. This question is optional, answer N/A if you choose not to respond.	Yes	2018 Land Asset Management Plan #3684268; Drainage Asset Management Plan ECM#3010257 08.12.16 ~Asset Management Plan - Street Infrastructure v2016 ECM# 3010205 December 2016 ~Asset Management Plan -Roads v 2016 ECM#3010114 December 2016 ~Paths Asset Management Plan v2016 ECM#3010113 09.12.2016 ~Land Asset Management Plan v2016 ECM#3010171 20.12.2016 ~Asset Management Plan Facilities, Structures & Equipment v2016 ECM#3010130 30.11.2016 ~Asset Management Plan Fleet & Plant v2016 ECM#3009827 December 2016 The Asset Management Plans have not been formally adopted by Council.	Eleanor Whiteley
6	S5.56	Has the local government adopted a Long Term Financial Plan. If Yes, in Comments please provide date of the most recent Plan, plus if adopted or endorsed by Council the date of adoption or endorsement. This question is optional, answer N/A if you choose not to respond.	Yes	Yes: Long Term Financial Plan 2019-2028 adopted 27.2.2018. Concise version of the LTFP is adopted as part of the Corporate Business Plan	Eleanor Whiteley
7	S5.56	Has the local government adopted a Workforce Plan. If Yes, in Comments please provide date of the most recent Plan plus if adopted or endorsed by Council the date of adoption or endorsement. This question is optional, answer N/A if you choose not to respond.	Yes	Yes. Approved by Executive Leadership Team. Due for review.	Eleanor Whiteley





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## Belmont - Compliance Audit Return 2018

Local Government Employees					
No	Reference	Question	Response	Comments	Respondent
1	Admin Reg 18C	Did the local government approve the process to be used for the selection and appointment of the CEO before the position of CEO was advertised.	N/A		Eleanor Whiteley
2	s5.36(4) s5.37(3), Admin Reg 18A	Were all vacancies for the position of CEO and other designated senior employees advertised and did the advertising comply with s.5.36(4), 5.37(3) and Admin Reg 18A.	N/A		Eleanor Whiteley
3	Admin Reg 18F	Was the remuneration and other benefits paid to a CEO on appointment the same remuneration and benefits advertised for the position of CEO under section 5.36(4).	N/A		Eleanor Whiteley
4	Admin Regs 18E	Did the local government ensure checks were carried out to confirm that the information in an application for employment was true (applicable to CEO only).	N/A		Eleanor Whiteley
5	s5.37(2)	Did the CEO inform council of each proposal to employ or dismiss a designated senior employee.	N/A		Eleanor Whiteley



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## Belmont - Compliance Audit Return 2018

Official Conduct					
No	Reference	Question	Response	Comments	Respondent
1	s5.120	Where the CEO is not the complaints officer, has the local government designated a senior employee, as defined under s5.37, to be its complaints officer.	N/A	N/A. CEO is the Complaints Officer at the City of Belmont	Eleanor Whiteley
2	s5.121(1)	Has the complaints officer for the local government maintained a register of complaints which records all complaints that result in action under s5.110(6)(b) or (c).	Yes	Yes: Physical Register maintained and located within Governance Unit. ECM Folder 32/019 - Code of Conduct Register.	Eleanor Whiteley
3	s5.121(2)(a)	Does the complaints register maintained by the complaints officer include provision for recording of the name of the council member about whom the complaint is made.	Yes	Yes: This is covered by the Complaint Officers Details Form on the City's document control register (BelNet). Physical Register maintained and located within Governance Unit. ECM Folder 32/019 - Code of Conduct Register.	Eleanor Whiteley
4	s5.121(2)(b)	Does the complaints register maintained by the complaints officer include provision for recording the name of the person who makes the complaint.	Yes	Yes: This is covered by the Complainant Details Form on the City's document control register (BelNet). Physical Register maintained and located within Governance Unit. ECM Folder 32/019 - Code of Conduct Register.	Eleanor Whiteley
5	s5.121(2)(c)	Does the complaints register maintained by the complaints officer include provision for recording a description of the minor breach that the standards panel finds has occurred.	Yes	Yes: Physical Register maintained and located within Governance Unit. ECM Folder 32/019 - Code of Conduct Register.	Eleanor Whiteley
6	s5.121(2)(d)	Does the complaints register maintained by the complaints officer include the provision to record details of the action taken under s5.110(6)(b) or (c).	Yes	Yes: Physical Register maintained and located within Governance Unit. ECM Folder 32/019 - Code of Conduct Register.	Eleanor Whiteley



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## Belmont - Compliance Audit Return 2018

Tenders for Providing Goods and Services					
No	Reference	Question	Response	Comments	Respondent
1	s3.57 F&G Reg 11	Did the local government invite tenders on all occasions (before entering into contracts for the supply of goods or services) where the consideration under the contract was, or was expected to be, worth more than the consideration stated in Regulation 11(1) of the Local Government (Functions & General) Regulations (Subject to Functions and General Regulation 11(2)).	Yes	Yes: See ECM Folder 114/2018	Eleanor Whiteley
2	F&G Reg 12	Did the local government comply with F&G Reg 12 when deciding to enter into multiple contracts rather than inviting tenders for a single contract.	Yes	Yes	Eleanor Whiteley
3	F&G Reg 14(1) & (3)	Did the local government invite tenders via Statewide public notice.	Yes	Yes: ECM# 3672369, 3809437, 3974185	Eleanor Whiteley
4	F&G Reg 14 & 15	Did the local government's advertising and tender documentation comply with F&G Regs 14, 15 & 16.	Yes		Eleanor Whiteley
5	F&G Reg 14(5)	If the local government sought to vary the information supplied to tenderers, was every reasonable step taken to give each person who sought copies of the tender documents or each acceptable tenderer, notice of the variation.	Yes	Yes: ECM# 3694585, 4260535	Eleanor Whiteley
6	F&G Reg 16	Did the local government's procedure for receiving and opening tenders comply with the requirements of F&G Reg 16.	Yes		Eleanor Whiteley
7	F&G Reg 18(1)	Did the local government reject the tenders that were not submitted at the place, and within the time specified in the invitation to tender.	N/A		Eleanor Whiteley
8	F&G Reg 18 (4)	In relation to the tenders that were not rejected, did the local government assess which tender to accept and which tender was most advantageous to the local government to accept, by means of written evaluation criteria.	Yes	Yes: ECM# 3694535, 3842376, 4211502	Eleanor Whiteley
9	F&G Reg 17	Did the information recorded in the local government's tender register comply with the requirements of F&G Reg 17.	Yes	Yes: ECM# 3617406	Eleanor Whiteley



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No	Reference	Question	Response	Comments	Respondent
10	F&G Reg 19	Was each tenderer sent written notice advising particulars of the successful tender or advising that no tender was accepted.	Yes	Yes: Successful Letters ECM# 3731268, 3877025, 4260548 Unsuccessful Letters ECM# 3731269, 3885988, 3885989, 3885990, 3885991, 3885992, 4260547, 4260549, 4260550, 4260546	Eleanor Whiteley
11	F&G Reg 21 & 22	Did the local governments's advertising and expression of interest documentation comply with the requirements of F&G Regs 21 and 22.	Yes	Yes: ECM# 3774569	Eleanor Whiteley
12	F&G Reg 23(1)	Did the local government reject the expressions of interest that were not submitted at the place and within the time specified in the notice.	N/A		Eleanor Whiteley
13	F&G Reg 23(4)	After the local government considered expressions of interest, did the CEO list each person considered capable of satisfactorily supplying goods or services.	Yes	Yes: ECM# 3881045	Eleanor Whiteley
14	F&G Reg 24	Was each person who submitted an expression of interest, given a notice in writing in accordance with Functions & General Regulation 24.	Yes	Yes: ECM# 3800698, 3810612, 3810613, 3810614, 3810615, 3810616, 3810607, 3810608, 3810609, 3810610, 3810611, 3810606	Eleanor Whiteley
15	F&G Reg 24AD(2)	Did the local government invite applicants for a panel of pre-qualified suppliers via Statewide public notice.	N/A	City of Belmont does not use panel contracts	Eleanor Whiteley
16	F&G Reg 24AD(4) & 24AE	Did the local government's advertising and panel documentation comply with F&G Regs 24AD(4) & 24AE.	N/A		Eleanor Whiteley
17	F&G Reg 24AF	Did the local government's procedure for receiving and opening applications to join a panel of pre-qualified suppliers comply with the requirements of F&G Reg 16 as if the reference in that regulation to a tender were a reference to a panel application.	N/A		Eleanor Whiteley
18	F&G Reg 24AD(6)	If the local government to sought to vary the information supplied to the panel, was every reasonable step taken to give each person who sought detailed information about the proposed panel or each person who submitted an application, notice of the variation.	N/A		Eleanor Whiteley
19	F&G Reg 24AH(1)	Did the local government reject the applications to join a panel of pre-qualified suppliers that were not submitted at the place, and within the time specified in the invitation for applications.	N/A		Eleanor Whiteley



Department of  
**Local Government, Sport  
and Cultural Industries**

No	Reference	Question	Response	Comments	Respondent
20	F&G Reg 24AH(3)	In relation to the applications that were not rejected, did the local government assess which application (s) to accept and which application(s) were most advantageous to the local government to accept, by means of written evaluation criteria.	N/A		Eleanor Whiteley
21	F&G Reg 24AG	Did the information recorded in the local government's tender register about panels of pre-qualified suppliers, comply with the requirements of F&G Reg 24AG.	N/A		Eleanor Whiteley
22	F&G Reg 24AI	Did the local government send each person who submitted an application, written notice advising if the person's application was accepted and they are to be part of a panel of pre-qualified suppliers, or, that the application was not accepted.	N/A		Eleanor Whiteley
23	F&G Reg 24E	Where the local government gave a regional price preference in relation to a tender process, did the local government comply with the requirements of F&G Reg 24E in relation to the preparation of a regional price preference policy (only if a policy had not been previously adopted by Council).	N/A		Eleanor Whiteley
24	F&G Reg 24F	Did the local government comply with the requirements of F&G Reg 24F in relation to an adopted regional price preference policy.	N/A		Eleanor Whiteley
25	F&G Reg 11A	Does the local government have a current purchasing policy in relation to contracts for other persons to supply goods or services where the consideration under the contract is, or is expected to be, \$150,000 or less.	Yes	Yes: City of Belmont Policy Manual BEXB28 - Purchasing	Eleanor Whiteley



# **Standing Committee (Audit and Risk)**

**Item 11.4 refers**

## **Attachment 6**

**Revised Terms of Reference –  
Standing Committee  
(Audit and Risk)**

**TERMS OF REFERENCE**  
**STANDING COMMITTEE (AUDIT AND RISK)**

**Purpose**

To assist the Council to discharge its responsibilities with regard to the exercise of due care and diligence in relation to the reporting of financial information, the application of accounting policies, and the management of the financial affairs of the City in accordance with the provisions of the *Local Government Act 1995* and associated Regulations including an assessment of the management of risk.

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 Chief Executive Officer (CEO) has legislative responsibility and does not have any delegated power from Council. The Committee does not have any management functions and cannot involve itself in management processes or procedures.

The Committee is to report to Council and provide appropriate advice and recommendations on matters relevant to its terms of reference 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.

**Objective**

The primary objective of the Standing Committee (Audit and Risk) is to accept responsibility for the annual external audit and liaise with the local government's ~~auditor~~ Office of the Auditor General so that Council can be satisfied with the performance of the local government in managing its financial affairs.

Reports from the Committee will assist Council in discharging its legislative responsibilities of governing the local government's affairs, performing the local government's functions, 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 that effective management of local government's financial accounting systems and compliance with legislation.

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 the appropriateness and effectiveness of the City's systems and procedures for 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.

## Duties and Responsibilities

The duties and responsibilities of the Committee members will be to –

### 1. Internal and External Audit Planning and Reporting

- a. Provide guidance and assistance to Council as to carrying out the functions of the local government in relation to audits;
- ~~b. Develop and recommend to Council an appropriate process for selection and appointment of a person as the local governments auditor;~~
- ~~c. Develop and recommend to Council—~~
  - ~~i. A list of those matters to be audited; and~~
  - ~~ii. The scope for 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 auditor. The agreement is to include—~~
  - ~~i. The objectives of the audit;~~
  - ~~ii. The scope of the audit;~~
  - ~~iii. A plan of 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;~~
- ~~f.b.~~ Meet with the auditor once in each year and provide a report to Council on the matters discussed and outcome of those discussions;
- ~~g.c.~~ Liaise with the CEO to ensure that the local government does everything in its power to-
  - i. Assist the auditor to conduct the audit and carry out his or her duties under the *Local Government Act 1995*; and
  - ii. Ensure that audits are conducted successfully and expeditiously;
- ~~h.d.~~ Examine the reports of the auditor after receiving a report from the CEO on the matters and –
  - 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;
- ~~i.e.~~ 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.f.~~ Review the scope of the audit plan and program and its effectiveness;
- ~~k.g.~~ Review the appropriateness of special internal audit assignments undertaken by internal audit at the request of the Council or CEO;
- ~~l.h.~~ Review the level of resources allocated to internal audit and the scope of its authority;
- ~~i.~~ Facilitate liaison between the internal and external auditor to promote compatibility to the extent appropriate, between their audit programs.
- ~~j.~~ Support the auditor as required and have functions to oversee:
  - ~~i. the implementation of audit recommendations made by the auditor, which have been accepted by council; and~~
  - ~~ii. Accepted recommendations arising from reviews of local government systems and procedures~~

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## 2. Financial Management

- a. Review reports of internal audits and by monitoring the implementation of recommendations made by the audit and reviewing the extent to which Council and management reacts to matters raised;
- b. Review the local government's draft annual financial report, focusing on –
  - i. Accounting policies and practices;
  - ii. Changes to accounting policies and practices;
  - iii. The process used in making significant accounting estimates;
  - iv. Significant adjustments to the financial report (if any) arising from the audit process;
  - v. Compliance with accounting standards and other reporting requirements; and significant variances from prior years;
- c. 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;
- d. 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.

## 3. Legislative Compliance

- a. 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.
- b. Review the annual Statutory Compliance Audit Return and make a recommendation on its adoption to Council;
- c. Review and submit to Council reports prepared by the CEO on the results of the review of appropriateness and effectiveness of systems and procedures in relation to:
  - i. Risk management;
  - ii. Internal controls; and
  - iii. Legislative compliance

Which are each subject to review ~~at least every two calendar years~~ not less than once in every three financial years.

## 4. Risk Management

- a. At least once every year consider a report in relation to the management of risk within the City of Belmont, and satisfy itself that appropriate controls and processes are in operation, and are adequate for dealing with the risks that impact on the City;
- b. To examine and consider the transfer of risk through an annual review of Council's insurance's;
- c. To address any specific requests referred to it from Council in relation to issues of risk and risk management.

### **Membership**

1. The membership of the Committee shall comprise the Mayor (Ex Officio) and an Elected Member from each of the three wards. The Elected Members being determined by nomination and if necessary a ballot conducted at a Council Meeting following the local government ordinary election;
2. The membership of the Committee shall also comprise of an independent member who is to be appointed for a term of two years to expire immediately prior to the next local government ordinary election. This independent member is not to be a staff member or Elected Member.
3. If a vacancy on the Committee occurs for whatever reason then Council shall appoint a replacement in accordance with the same arrangements as for the original appointment set out in 1 and (if considered appropriate) 2 above.

### **Staff**

The following staff will attend Committee meetings to provide technical support and advice:

- Chief Executive Officer;
- Director Corporate and Governance;
- Manager Finance, as required;
- Manager Governance, as required; and
- Additional staff where relevant to the agenda, with Director approval.

### **Invitees / Attendees**

Relevant persons may be invited to attend and address or advise the Committee, within the ambit of its scope and where necessary with the approval of the Director Corporate and Governance and the Presiding Member.

### **Meetings**

The Committee shall have flexibility in relation to when it needs to meet, but as a minimum shall meet twice a year. It is the responsibility of the Presiding Member to call the meetings of the Committee.



# **Standing Committee (Audit and Risk)**

**Item 11.4 refers**

## **Attachment 7**

**Letter Dated 12 December 2018  
from the Department of Local  
Government, Sport and Cultural  
Industries (DLGSCI)**



Department of  
**Local Government, Sport  
and Cultural Industries**

Our ref E1833796  
Enquiries Andrew Borrett  
Phone (08) 6552 1532  
Email info@dlgsc.wa.gov.au

Mr John Christie  
Chief Executive Officer  
City of Belmont  
LMB 379  
CLOVERDALE WA 6985

Attention: Mr Robin Garrett, Director Corporate and Governance

Dear Mr Christie

### **TERMS OF REFERENCE – AUDIT COMMITTEES**

Thank you for your correspondence dated 26 November 2018 regarding the context of Regulation 16 of the *Local Government (Audit) Regulations 1996* and the implications of the audit committee assisting with a local government's financial management.

The Department's Operational Guideline Number 09 'Audit in Local Government', available on the Department website and attached, states under the heading - 'Powers of the Audit Committee', that '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.'

A consistent intent of the *Local Government Act 1995* is to separate the strategic role of the elected members of a local government (council and committees) from the operational, management role of the Chief Executive Officer and his or her employees. The function of the audit committee to 'guide and assist', as referred to in Regulation 16, is to occur at the strategic level, not at the operational level.

Preparation of budgets, financial and other reports and documents is a management task, informed by and incorporating the strategies and plans determined by the local government's elected council, including recommendations that may have been adopted by the council from those submitted by council committees, including the audit committee.

I trust that this information is of assistance in reviewing the terms of reference for your local government's audit committee.

Yours sincerely

Michael Connolly  
A/Director General

12 December 2018

Att.



Gordon Stephenson House, 140 William Street  
PO Box 8349, Perth Business Centre WA 6849  
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Web www.dlgsc.wa.gov.au



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

# Local Government Operational Guidelines

Number 09 – Revised September 2013

## Audit in Local Government

The appointment, function  
and responsibilities of  
Audit Committees





## 1. Introduction

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.

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

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

### Financial Management

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 (section 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 prescribed. The accounts of the local government and annual financial report are to be submitted to the auditor for audit by 30 September (section 6.4).
- c) have a municipal fund and a separate and distinct trust fund (section 6.6).
- d) establish and maintain reserve funds for the holding of monies set aside for future use (section 6.11).

### Audit Requirements for Local Governments

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**

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 Chief Executive Officer (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**

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;
  - (ii) as to the development of a process to be used to select and appoint a person to be an auditor;
- (b) may provide guidance and assistance to the local government as to –
  - (i) matters to be audited;
  - (ii) the scope of audits;
  - (iii) its functions under Part 6 of the Act;
  - (iv) the carrying out of its functions relating to other audits and other matters related to financial management;
- (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;
  - (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

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.

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.

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.

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.

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.

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.



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.

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.

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.

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.

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**

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.



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**

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.

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.

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**

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."

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.

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

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.

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.

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

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;
  - 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

The Act and Regulations prescribe the scope of the external audit of the annual financial statements of a local government.

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

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.

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.

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; and
- b) provide comment on any critical matters raised and action proposed to be taken to address those matters.

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

**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.

The clauses that may be considered optional have been asterisked (\*).

#### Objectives of Audit Committees

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.

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.

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

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.

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

The committee will consist of \*four members with three elected and \*one external person. All members shall have full voting rights.

\*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.

\*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.

\*Reimbursement of approved expenses will be paid to each external person who is a member of the committee.

The CEO and employees are not members of the committee.

The CEO or his/her nominee is to be available to attend meetings to provide advice and guidance to the committee.

The local government shall provide secretarial and administrative support to the committee.

### Meetings

The committee shall meet at least \*quarterly.

Additional meetings shall be convened at the discretion of the presiding person.

### Reporting

Reports and recommendations of each committee meeting shall be presented to the next ordinary meeting of the Council.

\*The committee shall report annually to the Council summarising its activities during the previous financial year.

### Duties and Responsibilities

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 to –
  - 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

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.

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.

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.

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.

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;
- (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; and
- (h) specific tasks requested by management.

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.

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.

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.

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.

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*.

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

**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

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

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

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

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

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

### Scope of the Audit

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.

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;
- (b) any matters indicating non-compliance with financial management or control requirements of the Act, Regulations and any other written law;
- (c) details of whether information and explanations were obtained by the auditor;



- (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

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;
  - 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

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

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.

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

### Terms

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

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

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

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.

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; and
- human resource management and practices.

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.

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; and

- regular liaison with auditor and legal advisors.

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; and
- comparison of the result of physical cash and inventory counts with accounting records.

### Legislative Compliance

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; and
- 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.



These guidelines are also available on the Department's website at [www.dlgc.wa.gov.au](http://www.dlgc.wa.gov.au)



### About the Guideline series

This document 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 Department officer 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 re-publishing as required. Therefore, comments on any aspect of the guideline are welcome. Advice of methods of improvement in the area of the guideline topic that can be reported to other local governments will be especially beneficial.

For more information about this and other guidelines, contact the Local Government Regulation and Support Branch at:

### Department of Local Government and Communities

Gordon Stephenson House, 140 William Street, Perth WA 6000

GPO Box R1250, Perth WA 6844

Telephone: (08) 6551 8700 Fax: (08) 6552 1555

Freecall (Country only): 1800 620 511

Email: [info@dlgc.wa.gov.au](mailto:info@dlgc.wa.gov.au) Website: [www.dlgc.wa.gov.au](http://www.dlgc.wa.gov.au)

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



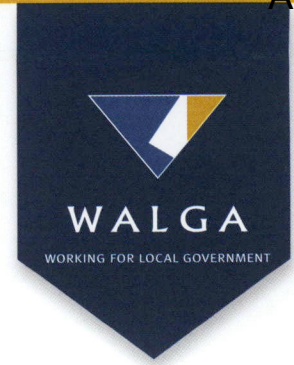


# **Standing Committee (Audit and Risk)**

**Item 11.4 refers**

## **Attachment 8**

**Letter Dated 18 January 2019 from  
West Australian Local  
Government Association  
(WALGA)**



18 January 2019

Our Ref: 05-034-01-001 \ TB:LF  
Your Ref: 19/003

Mr Robin Garrett  
Director Corporate and Governance  
City of Belmont  
LMB 379  
CLOVERDALE WA 6985

Dear Mr Garrett

**Re: Terms of Reference Audit Committee**

Thank you for your letter dated 26 November 2018 outlining the City's concerns regarding the conflicting governance structure arising from Regulation 16 of the *Local Government (Audit) Regulations 1996*, which establishes the functions of an Audit Committee.

WALGA considered this issue when providing feedback on the draft Regulation to the Department of Local Government, Sport and Cultural Industries, through our State Council meeting resolution on 7 March 2018:

*"...Proposed amendment of Regulation 16 - Supported subject to:*

- (i) Sub-regulation 16(a) being deleted as Audit Committee involvement in 'guiding and assisting' Local Government to prepare budgets, financial reports, rates, etc. compromises the Committee's objectivity / impartiality when undertaking the audit role.*
- (ii) Redrafting Sub-regulation 16(d) to prescribe the Audit Committee's function as being 'to monitor and advise the CEO in regard to the outcome of any review undertaken in accordance with Audit Regulation 17(1) and Financial Management Regulation 5(2)(c)'. The redraft is proposed to avoid any confusion between the Audit Committee function and the CEO's responsibilities for the administration of the Local Government.*
- (iii) Amendment of Sub-regulation 16(d) to include a requirement for the Audit Committee to report to Council.*
- (iv) Sub-regulation 16(f) being deleted as the Audit Committee's role is not to 'oversee' the implementation of actions by the Local Government."*

Unfortunately, WALGA's position on these matters was not included in the final drafting of Regulation 16, which therefore remains a conflicting anomaly in the Functions of the Audit Committee.





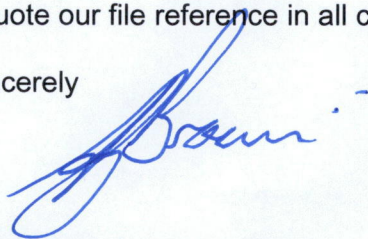
It would be appreciated if you could include this concern in the City of Belmont's submissions on the Local Government Act Review to WALGA - due to WALGA by 22 February 2019 - noting that formal submissions to WALGA on this matter are requested to be under a Council resolution. This enables the matter to be considered through WALGA Zones and ultimately for State Council to consider a sector-wide position. If however, noting the short timeframe, the matter is unable to be directed through a Council resolution, we will note the matter as an Administration submission on the basis of your correspondence.

The City of Belmont may also wish to include this matter in a Local Government Act Review submission direct to the Department of Local Government, Sport and Cultural Industries - due by 31 March 2019.

For any further enquiries please contact me on 9213 2051.

Please quote our file reference in all correspondence.

Yours sincerely



**Tony Brown**  
**Executive Manager Governance and Organisational Services**

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- (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;
- (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; and
- (h) specific tasks requested by management.

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.

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.

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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

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

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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.

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;
- (b) any matters indicating non-compliance with financial management or control requirements of the Act, Regulations and any other written law;
- (c) details of whether information and explanations were obtained by the auditor;



- (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

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;
  - the method to be used to communicate with, and provide advice and information to, the local government; and
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### Critical Matters to be Audited

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

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.

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

### Terms

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

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

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

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.

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; and
- human resource management and practices.

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.

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; and

- regular liaison with auditor and legal advisors.

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; and
- comparison of the result of physical cash and inventory counts with accounting records.

### Legislative Compliance

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; and
- 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.



These guidelines are also available on the Department's website at [www.dlgc.wa.gov.au](http://www.dlgc.wa.gov.au)



### About the Guideline series

This document 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 Department officer 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 re-publishing as required. Therefore, comments on any aspect of the guideline are welcome. Advice of methods of improvement in the area of the guideline topic that can be reported to other local governments will be especially beneficial.

For more information about this and other guidelines, contact the Local Government Regulation and Support Branch at:

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

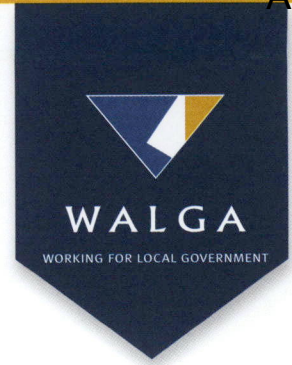


# **Standing Committee (Audit and Risk)**

**Item 11.4 refers**

## **Attachment 8**

**Letter Dated 18 January 2019 from  
West Australian Local  
Government Association  
(WALGA)**



18 January 2019

Our Ref: 05-034-01-001 \ TB:LF  
Your Ref: 19/003

Mr Robin Garrett  
Director Corporate and Governance  
City of Belmont  
LMB 379  
CLOVERDALE WA 6985

Dear Mr Garrett

**Re: Terms of Reference Audit Committee**

Thank you for your letter dated 26 November 2018 outlining the City's concerns regarding the conflicting governance structure arising from Regulation 16 of the *Local Government (Audit) Regulations 1996*, which establishes the functions of an Audit Committee.

WALGA considered this issue when providing feedback on the draft Regulation to the Department of Local Government, Sport and Cultural Industries, through our State Council meeting resolution on 7 March 2018:

*"...Proposed amendment of Regulation 16 - Supported subject to:*

- (i) Sub-regulation 16(a) being deleted as Audit Committee involvement in 'guiding and assisting' Local Government to prepare budgets, financial reports, rates, etc. compromises the Committee's objectivity / impartiality when undertaking the audit role.*
- (ii) Redrafting Sub-regulation 16(d) to prescribe the Audit Committee's function as being 'to monitor and advise the CEO in regard to the outcome of any review undertaken in accordance with Audit Regulation 17(1) and Financial Management Regulation 5(2)(c)'. The redraft is proposed to avoid any confusion between the Audit Committee function and the CEO's responsibilities for the administration of the Local Government.*
- (iii) Amendment of Sub-regulation 16(d) to include a requirement for the Audit Committee to report to Council.*
- (iv) Sub-regulation 16(f) being deleted as the Audit Committee's role is not to 'oversee' the implementation of actions by the Local Government."*

Unfortunately, WALGA's position on these matters was not included in the final drafting of Regulation 16, which therefore remains a conflicting anomaly in the Functions of the Audit Committee.





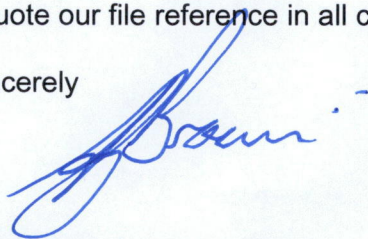
It would be appreciated if you could include this concern in the City of Belmont's submissions on the Local Government Act Review to WALGA - due to WALGA by 22 February 2019 - noting that formal submissions to WALGA on this matter are requested to be under a Council resolution. This enables the matter to be considered through WALGA Zones and ultimately for State Council to consider a sector-wide position. If however, noting the short timeframe, the matter is unable to be directed through a Council resolution, we will note the matter as an Administration submission on the basis of your correspondence.

The City of Belmont may also wish to include this matter in a Local Government Act Review submission direct to the Department of Local Government, Sport and Cultural Industries - due by 31 March 2019.

For any further enquiries please contact me on 9213 2051.

Please quote our file reference in all correspondence.

Yours sincerely



**Tony Brown**  
**Executive Manager Governance and Organisational Services**



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