


TOWN OF BASSENDEAN
NOTICE OF THE MEETING OF THE
AUDIT AND GOVERNANCE COMMITTEE

Dear Committee Member

The meeting of the Town of Bassendean's Audit and Governance Committee will be held in the Council Chamber, 48 Old Perth Road, Bassendean, on Wednesday 6 February 2019, commencing at 5.30pm.



Peta Mabbs
CHIEF EXECUTIVE OFFICER

1 February 2019

A G E N D A

1.0 **DECLARATION OF OPENING/ANNOUNCEMENT OF VISITORS**

Acknowledgement of Traditional Owners

The Town of Bassendean acknowledges the past and present traditional owners of the land on which we gather to conduct this meeting, and pays its respects to their Elders, both past and present.

2.0 **ATTENDANCES, APOLOGIES AND APPLICATIONS FOR LEAVE OF ABSENCE**

3.0 **DEPUTATIONS**

4.0 CONFIRMATION OF MINUTES

4.1 Audit and Governance Meeting held on 7 November 2018

OFFICER RECOMMENDATION – ITEM 4.1

That the minutes of the Audit and Governance Committee meeting held on 7 November 2018, be confirmed as a true record.

5.0 ANNOUNCEMENTS BY THE PRESIDING PERSON WITHOUT DISCUSSION

6.0 DECLARATIONS OF INTEREST

7.0 BUSINESS DEFERRED FROM PREVIOUS MEETING

8.0 REPORTS

8.1 Role of Internal Audit and Audit Focus for 2018/2019 – (Ref: GOVR/LREGLIA/3 – Peta Mabbs, Chief Executive Officer)

APPLICATION

The Audit & Governance Committee is requested to consider the CEO's review of the appropriateness and effectiveness of the Town's Audit and governance committee – instrument of appointment.

ATTACHMENT

Attachment No.1:

- Audit in Local Government Guidelines
- Amended Audit and Governance Committee's Instrument of Appointment

BACKGROUND

On 28 October 2017, the *Local Government Amendment (Auditing) Act 2017* (LG Act) was proclaimed, giving the Auditor General the mandate to audit Western Australia's 139 local governments and 9 regional councils. Parliament provided this mandate to enhance accountability and transparency across the sector.

The *Local Government Act 1995* (the Act) allowed the Auditor General to start performance and focus area audits from the date of proclamation, while responsibility for financial audits will progressively transition to the Auditor General, as local governments' existing audit contracts expire.

The Auditor General's presence in the local government sector increases the level of oversight for all local governments. For the Town of Bassendean this is an opportunity to reflect on our current audit model to consider opportunities to further enhance assurance.

In this regard, proposed changes have been identified regarding:

- the role and reporting relationship of the Internal Audit function; and
- the focus of the Town's Internal Audit program for the remainder of 2018/2019.

Current Situation

1. The Role of Internal Audit

Currently, the Town's Audit and Governance Committee (AG Committee), in practice does not include the Town's Internal Auditor (currently performed by 'Moore Stephens') as regular participants at the quarterly AG Committee meetings. To date, the function has reported to the Director Corporate Services.

Audit in Local Government, Page 13 (Attachment 1) states: "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".

In seeking to further enhance assurance, it is proposed that the Town's Internal Auditors have:

- a functional reporting line to the AG Committee; and
- an administrative reporting relationship to the Chief Executive Officer.

In light of the above proposal and to facilitate a functional reporting line to the AG Committee, it is further proposed that:

- a standing invitation to all AG Committee meetings be extended to the Town's Internal Auditor.

Both these measures are designed to facilitate the AG Committee fully discharging its objectives in addition to providing further assurance to the Town and Council. An amended "Audit and Governance Committee Terms of Reference" is provided (Attachment 2) highlighting proposed amendments to enable the above to be incorporated.

2. Aligning the Town's Internal Audit Program

The Internal Audit Program for an organisation is designed to be a 'risk based' plan which sets out the intended nature of internal audits for the coming year.

As the Town's most recent risk assessment was undertaken in 2016, it is timely to undertake a comprehensive organisational risk assessment. Embedding risk management capability within the Town will not only ensure the Town's internal audit program is aligned to its current risk profile, but a more robust system of governance will be promoted. A risk assessment will enable for the identification, assessment, and prioritisation of risks across the organisation to enable a more coordinated and effective application of resources to minimise, monitor, and control the probability and/or impact of unfortunate events and maximise the realisation of opportunities. Part of the risk assessment exercise will also be to identify and examine internal controls and legislative compliance.

It is proposed that utilising the Town's internal audit capability to facilitate a comprehensive organisational risk assessment in the first half of 2019 will ensure the future internal audit program is targeted and reflective of the Town's risk profile. This will also enable quarterly reporting of risks to the AG Committee.

To facilitate this, it is proposed that the Chief Executive Officer work with the internal auditors to ensure a comprehensive organisational risk assessment in the first half of 2019. This proposal is intended to replace any other internal audits during the remainder of the financial year.

The product of this work will be a report to the AG Committee providing a risk assessment in addition to identifying gaps in terms of controls and legislative compliance; and areas for improvement. The latter will inform the development of the Strategic Audit Plan from 1 July 2019 onwards.

COMMUNICATION AND ENGAGEMENT

Discussions with the Town's internal auditors regarding the proposal have been undertaken.

STRATEGIC IMPLICATIONS

Objectives <i>What we need to achieve</i>	Strategies <i>How we're going to do it</i>	Measures of Success <i>How we will be judged</i>
5.1 Enhance organisational accountability	5.1.1 Enhance the capability of our people	Community / Stakeholder Satisfaction Survey (Governance)
	5.1.2 Ensure financial sustainability	
	5.1.3 Strengthen governance, risk management and compliance	Compliance Audit
	5.1.4 Improve efficiency and effectiveness of planning and services	Risk Management Profile
	5.1.5 Ensure optimal management of assets	Financial Ratio Benchmarked. Asset Ratio Benchmarked

Council policy 6.15 – Risk Management Policy refers, and will require review.

STATUTORY REQUIREMENTS

This proposal addresses the requirements of Regulation 17 of the *Local Government (Audit) Regulations 1996*; and Regulation 5 (2) (c) of the *Local Government (Financial Management) Regulations 1996*.

More specifically:

Local Government (Audit) Regulations 1996

The Chief Executive Officer is to comply with Regulation 17 of the Local Government (Audit) Regulations in reviewing certain systems and procedures in relation to:

- (a) Risk management; and
 - (b) Internal control; and
 - (c) Legislative compliance.
- (2) The review may relate to any or all of the matters referred to in sub regulation (1)(a), (b) and (c), but each of those matters is to be the subject of a review at least once every 2 calendar years.
- (3) The CEO is to report to the audit committee the results of that review.

Historically, a local government was to carry out a 'systems and procedures' audit at least once every two years, with the next review to be completed by 31 December 2018. After carrying out a systems and procedures audit the local government is to prepare an audit report in a form approved by the Minister.

The Local Government (Audit) Regulations 1996 were amended in 26 June 2018. Part of the amendment is in relation to the frequency of the system and procedures review. The system and procedures review is to be carried out every 3 financial years. The next system and procedures review is to be carried out in 2019.

Local Government (Financial Management) Regulations 1996

The CEO is to –

- (C) Undertake reviews of the appropriateness and effectiveness of the financial management systems and procedures of the Local Government regularly (and not less than once in every 3 years) and report to the local government the results of those reviews.

The local government's Audit Committee is to review the audit report and is to provide the results of that review to Council.

FINANCIAL CONSIDERATIONS

Nil

COMMENT

Nil

OFFICER RECOMMENDATION – ITEM 8.1

That Council adopts the following:

1. In seeking to further enhance assurance, it is proposed that the Town's Internal Auditors have:
 - a functional reporting line to the Audit and Governance Committee; and
 - an administrative reporting relationship to the Chief Executive Officer;
2. In light of the above and to facilitate a functional reporting line to the Audit and Governance Committee, it is further proposed that:
 - a standing invitation to all AG Committee meetings be extended to the Town's Internal Auditor.
3. The Audit and Governance Committee's Instrument of Appointment (attached) be updated (as highlighted) to reflect the above changes outlined in '1' and '2';
4. The internal auditors undertake an organisational risk assessment; assessment of internal controls; and assessment of legislative compliance to meet the requirements of Regulation 17 of the *Local Government (Audit) Regulations 1996*; and Regulation 5 (2) (c) of the *Local Government (Financial Management) Regulations 1996*
4. A report to the Audit and Governance Committee on the outcomes of the above (i.e. '4'), be provided by 30 June 2019.; and
5. The Strategic Audit Plan for 1 July 2019 onwards be informed by the above (i.e. '5').

Voting requirement: Absolute majority

9.0 MOTIONS OF WHICH PREVIOUS NOTICE HAS BEEN GIVEN

10.0 ANNOUNCEMENTS OF NOTICES OF MOTION FOR THE NEXT MEETING

11.0 CONFIDENTIAL BUSINESS

12.0 CLOSURE

The next meeting is to be held on Wednesday, 8 May 2019, commencing at 5.30pm.

AUDIT AND GOVERNANCE COMMITTEE

ATTACHMENT NO. 1



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.
- 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 –

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;
- (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 –
- ^{EO}₀₁ a list of those matters to be audited; and
 - ^{EO}₀₁ 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 –
- ^{EO}₀₁ the objectives of the audit;
 - ^{EO}₀₁ the scope of the audit;
 - ^{EO}₀₁ a plan of the audit;
 - ^{EO}₀₁ details of the remuneration and expenses to be paid to the auditor; and
 - ^{EO}₀₁ 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 –
- ^{EO}₀₁ assist the auditor to conduct the audit and carry out his or her other duties under the *Local Government Act 1995*; and
 - ^{EO}₀₁ 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 –
- ^{EO}₀₁ determine if any matters raised require action to be taken by the local government; and
 - ^{EO}₀₁ 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 –
- ^{EO}₀₁ accounting policies and practices;
 - ^{EO}₀₁ changes to accounting policies and practices;
 - ^{EO}₀₁ the process used in making significant accounting estimates;
 - ^{EO}₀₁ significant adjustments to the financial report (if any) arising from the audit process;

- (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



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:








- EO 01 Reviewing whether the local government has an effective risk management system and that material operating risks to the local government are appropriately considered;
- EO 01 Reviewing whether the local government has a current and effective business continuity plan (including disaster recovery) which is tested from time to time;
- EO 01 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;
- EO 01 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;
- EO 01 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;
- EO 01 Reviewing the effectiveness of the local government's internal control system with management and the internal and external auditors;
- EO 01 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;
- EO 01 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;
- EO 01 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;
- EO 01 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;

- EO 01 Reviewing whether the local government has procedures for it to receive, retain and treat complaints, including confidential and anonymous employee complaints;
- EO 01 Obtaining assurance that adverse trends are identified and review management's plans to deal with these;
- EO 01 Reviewing management disclosures in financial reports of the effect of significant compliance issues;
- EO 01 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;
- EO 01 Considering the internal auditor's role in assessing compliance and ethics risks in their plan;
- EO 01 Monitoring the local government's compliance frameworks dealing with relevant external legislation and regulatory requirements; and
- EO 01 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



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




Local Government Advisory Hotline
1300 762 511
Email: lghotline@dlgc.wa.gov.au
8.30am–5.00pm, Monday to Friday

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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AUDIT AND GOVERNANCE COMMITTEE

INSTRUMENT OF APPOINTMENT

1. PURPOSE OF THE INSTRUMENT OF APPOINTMENT

The purpose of the Instrument of Appointment is to:

- 1.1 Facilitate the operation of the Audit and Governance Committee;
- 1.2 Support the Council in fulfilling its responsibilities in relation to:
 - a. risk management systems
 - b. internal control structure
 - c. financial reporting
 - d. compliance with laws and regulations e. internal and external audit functions

2. INTRODUCTION

The Audit and Governance (AG) Committee has been established in accordance with part 7 of the *Local Government Act 1995*.

The Audit and Governance Committee is an advisory committee formally appointed by the Council and is responsible to the Council. The AG committee does not have executive powers or authority to implement actions in areas over which management has responsibility and does not have any financial responsibility. The AG committee does not have any management functions and is therefore independent of management.

3. OBJECTIVES

The AG Committee's primary objective is to support the Council in discharging its legislative responsibility associated with governing the Town's affairs and overseeing the allocation of the Town's finances and resources.

The AG Committee will promote transparency and accountability in the Town's financial reporting and promote effective and responsible management of risks to protect the Town's assets.

The AG Committee will report to Council and provide appropriate advice and recommendations on matters relevant to its terms of reference in order to facilitate decision making by the Council in relation to the discharge of its responsibilities.

More specifically, the objectives of the AG committee are to oversee:

- 3.1 The integrity of external financial reporting, including accounting policies.
- 3.2 -The scope of work, objectivity, performance and independence of **the internal and external auditors**.
- 3.3 -The establishment, effectiveness and maintenance of controls and systems to safeguard the Town's financial and physical assets.
- 3.4 The framework and systems that are designed to ensure the Town comply with relevant statutory and regulatory requirements.
- 3.5 The framework for recognising risks arising from the Town's operations and strategies, and consider the adequacy of measures taken to manage those risks.
- 3.6 The framework and systems which protect the Council against fraud and irregularities.

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The AG committee must also add to the credibility of Council by promoting ethical standards through its work.

4. AUTHORITY

The AG committee has the authority of Council to:

- 4.1 Review the internal and external auditor's annual audit plans and the outcomes/results of all audits undertaken;
- 4.2 Formally meet with the Town's appointed **internal and external auditor** as necessary;
- 4.3 Ensure that any matters raised by **the internal and external audit** that require action are actioned; and
- 4.4 Advise Council on any or all of the above as deemed necessary.

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5. COMPOSITION

- 5.1 The AG Committee will comprise of five (5) members, three (3) Elected Members and two (2) external independent members.
- 5.2 An external member will be a person independent of the Town of Bassendean, and will not have provided paid services to the Town either directly or indirectly.

- 5.3 External independent members will be selected based on the following criteria:
- a) a demonstrated high level of expertise and knowledge in financial management, reporting, governance and audit; and
 - b) relevant skills and experience in providing independent expert advice.
- 5.4 Appointments of external independent members will be made following a public advertisement, and all nominations will be provided to Council for consideration.
- 5.5 The Council will appoint all members of the AG Committee.
- 5.6 Members shall be appointed for a period of up to two (2) years terminating on the day of the Local Government Ordinary Council Elections.
- 5.7 The Presiding Member and Deputy Presiding Member will be appointed by the AG Committee, biennially by election by all committee members after the Local Government Ordinary Council Elections.
- 5.8 The quorum for a meeting shall be a minimum of 3 Committee members.
- 5.9 AG Committee members are required to abide by the Local Government Act and Code of Conduct in observing the requirements of declaring any proximity, financial or impartiality interests that relate to any matter to be considered at each meeting.
- 5.10 Reimbursement of expenses approved by Council may be paid to an external person who is a member of the AG committee.

6. MEETINGS

The AG Committee shall meet every three (3) months or more regularly as required at the discretion of the Presiding Member of the AG Committee, the Mayor, or the CEO.

- 6.1 All AG committee members are expected to attend each meeting in person.
- 6.2 Elected Members, who are not part of the AG committee are invited to observe AG committee meetings, however, they are not entitled to participate in the meeting.
- 6.3 The members of the AG committee are to elect a Presiding Member from amongst themselves at the first meeting of the committee following an Ordinary Local Government Election.

- 6.4 The Presiding Member will preside at all meetings.
- 6.5 Each member of the Committee at a meeting will have one vote. The Presiding Member will have a casting vote and simple majority will prevail.
- 6.6 A committee recommendation does not have effect unless it has been made by simple majority. A simple majority is the agreement of not less than half of the members present at the meeting.
- 6.7 The CEO, or his delegate, the Director Corporate Services, is to attend all meetings to provide advice and guidance to the committee, however the CEO and employees are not members of the committee.
- 6.8 The CEO will invite members of management, internal and external auditors or others to attend meetings as observers and to provide pertinent information, as necessary.
- 6.10 The AG committee meetings are generally open to the public unless the Presiding Member or CEO deem it necessary to proceed behind closed doors pursuant to section 5.23 of the Local Government Act 1995.
- 6.11 Meeting agendas will be prepared and provided at least one week in advance to members, along with appropriate briefing materials.
- 6.12 Minutes will be taken at each meeting and presented to the subsequent meeting for confirmation.
- 6.13 Reports and recommendations of each committee meeting shall be presented to the next ordinary council meeting.

7. RESPONSIBILITIES

The AG committee will carry out the following responsibilities:

7.1 Risk management

- 7.1.1 Review whether management has in place a current and comprehensive enterprise risk management framework and associated procedures for effective identification and management of the Town's business and financial risks, including fraud.
- 7.1.2 Assess whether a sound and effective approach has been followed in managing the Town's major risks including those associated with individual projects, program implementation, and activities.
- 7.1.3 Assess the impact of the Town's enterprise risk management framework on its control environment and insurance arrangements.
- 7.1.4 Review the process of developing and implementing the Town's fraud control arrangements and satisfy itself the Town has appropriate processes and systems in place to detect, capture and effectively respond to fraud-related information.

7.2 Business continuity

- 7.2.1 Assess whether a sound and effective approach has been followed in establishing the Town's business continuity planning arrangements, including whether business continuity and disaster recovery plans have been periodically updated and tested.

7.3 Internal Control

- 7.3.1 Review whether management's approach to maintaining an effective internal control framework is sound and effective.
- 7.3.2 Review whether management has in place relevant policies and procedures and that they are periodically reviewed and updated.
- 7.3.3 Assess whether the appropriate processes are in place to assess, at least once a year, whether key policies and procedures are complied with.
- 7.3.4 Review whether appropriate policies and supporting procedures are in place for the management and exercise of delegations.
- 7.3.5 Consider how management identifies any required changes to the design or implementation of key internal controls.

7.4 Financial Report

- 7.4.1 Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent accounting, professional and regulatory pronouncements and legislative changes, and understand their effect on the financial report.
- 7.4.2 Review with management and the **internal and/or** external auditors the results of the audit, including any difficulties encountered.
- 7.4.3 Review the annual financial report and performance report of the Town of Bassendean and consider whether it is complete, consistent with information known to AG committee members, and reflects appropriate accounting principles.
- 7.4.4 Review with management and **the internal and/or** external auditors all matters required to be communicated to the AG committee under the Australian Auditing Standards.
- 7.4.5 Review the draft Annual Financial Statements and recommend the adoption of the Annual Financial Statements to Council, in accordance with the timeframes as prescribed.
- 7.4.6 Review the mid year budget review and recommend the adoption of the budget review to Council.

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7.5 Compliance

- 7.5.1 Review the systems and processes to monitor effectiveness of the system for monitoring compliance with legislation and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.
- 7.5.2 Keep informed of the findings of any examinations by regulatory agencies and any auditor (internal or external) observations and monitor management's response to those findings.
- 7.5.3 Obtain regular updates from management about compliance matters.
- 7.5.4 Review the annual Compliance Audit Return and report to the Council the results of the review.

7.6 Internal Audit

- 7.6.1 Review with management the AG Committee (via the CEO) the terms of reference, activities and resourcing of the internal audit function.
- 7.6.2 Review and recommend the annual internal audit plan for approval by the Council and all major changes to the plan.
- 7.6.3 Monitor processes and practices to ensure that the independence of the audit function is maintained.

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- 7.6.4 Provide an opportunity for the AG committee to meet with the internal auditors to discuss any matters that the AG committee or the internal auditors believe should be discussed privately.

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~~7.6.47~~ 7.6.5 Annually review the performance of the internal audit including the level of satisfaction with internal audit function having consideration of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

~~7.6.57~~ 7.6.6 Review all audit reports and provide advice to the Council on significant issues identified in audit reports and action to be taken on issues raised, including identification and dissemination of good practice.

~~7.6.67~~ 7.6.7 Monitor management's implementation of internal audit recommendations.

~~7.6.77~~ 7.6.8 Regularly review a report given to it by the CEO under regulation 17 (3) of the Local Government (Administration) Regulations 1996.

7.7 External Audit

- 7.7.1 Develop and recommend to Council a process to be used to select and appoint a person to be an auditor.
- 7.7.2 Recommend to Council the person or persons to be appointed as the external auditor.

- 7.7.3 Develop and recommend to Council a written agreement for the appointment of the external auditor in accordance with Local Government (Audit) Regulation 7.
- 7.7.4 Note the external auditor's proposed audit scope and approach for financial performance audits.
- 7.7.5 Consider the findings and recommendations of relevant Management Letters undertaken by the external auditor and ensure the Shire implements relevant recommendations.
- 7.7.6 Provide an opportunity for the AG committee to meet with the external auditors to discuss any matters that the AG committee or the external auditors believe should be discussed privately.
- 7.7.7 Annually review the performance of external audit including the level of satisfaction with external audit function.
- 7.7.8 Monitor management's implementation of external audit recommendations.

7.8 Reporting Responsibilities

- 7.8.1 Report regularly to the Council about AG committee activities, issues, and related recommendations through circulation of minutes.
- 7.8.2 Monitor that open communication between **the internal and external auditors** and the Town's management occurs.

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7.9 Other Responsibilities

- 7.9.1 Perform other activities related to these terms of reference as requested by the Council.
- 7.9.2 Annually review and assess the adequacy of the AG committee terms of reference, request Council approval for proposed changes, and ensure appropriate disclosure as might be required by legislation or regulation.