

# **The Operation of Council Audit Committees Final Report, June 2010**





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# 1 Background

The Local Government Act 1999 was amended in 2005 and assented to on December 1, 2005 having affect from January 25, 2007 requiring all Councils to have Audit Committees under Section 126 of the Local Government Act.

That section of the Act requires

- (1) A council must have an Audit Committee
- (2) The membership of an Audit Committee -
  - (a) may include persons who are not members of the council
  - (b) may not include an employee of the council (although an employee may attend a meeting of the Committee if appropriate); and
  - (c) may include or be comprised of members of an audit committee for another council and
  - (d) must otherwise be determined in accordance with the requirements of the regulation.

The functions of an Audit Committee include –

- (a) reviewing annual financial statements to ensure that they present fairly the state of affairs of the council; and
- (ab) proposing, and providing information relevant to a review of the council's strategic management plans or annual business plan; and
- (ac) proposing, and reviewing, the exercise of powers under section 130A; and
- (ad) if the council has exempted a subsidiary from the requirement to have an audit committee, the functions that would, apart from the exemption, have been performed by the subsidiary's audit committee; and
- (b) liaising with the council's auditor; and
- (c) reviewing the adequacy of the accounting, internal control, reporting and other financial management systems and practices of the council on a regular basis.

Further Section 130A – Other investigations (1) provides the council may, as it thinks fit, request its auditor, or some other person determined by the council to be suitably qualified in the circumstances, to examine and report on any matter relating to financial management, or the efficiency and economy with which the council manages or uses its resources to achieve its objectives that would not otherwise be addressed or included as part of an annual audit under Division 4 and that is considered by the council to be of such significance as to justify an examination under this section.

In essence these sections of the Act provide the Audit Committees of Councils with wide ranging powers to access and critically review the policies, procedures and practices of Council's administration in managing the resources of the Council and the manner in which reporting to Council and community is undertaken.

The enabling regulations of January 25, 2007 which accompanied the change to the legislation applied from the 2007/08 and subsequent financial years.

Those regulations specify membership criteria and structure of the Audit Committee to be established by Council specifically.

Section 13A – Membership prescribed for the audit committee of a council –

- (a) must have between 3 and 5 members (inclusive); and
- (b) must include at least 1 person who is not a member of the council and who is determined by the council to have financial experience relevant to the functions of an audit committee; and
- (c) must not include, as a member, the council’s auditor under section 128 of the Act.

The uptake of Councils in creating Audit Committees and the operation of the Committees has been progressively implemented from January 2007 by all Councils however in many cases that progress had been focused in the 2008/09 financial year. A survey conducted by the LGA on Audit Committees is summarised in Section 3 of this report.

Audit Committees are required to be established under Section 41 of the Local Government Act and as a consequence need to adhere to the Local Government Act 1999, the Local Government (Procedures at Meetings) Regulation 2000 and the respective Council’s “Code of Conduct” Policy. Agenda and minutes for the conduct of business of the Committee are to be provided to interested parties, reported to Council at the next available meeting for Council consideration and made available to the public in the same manner as any other Council Committee or meeting of the Council.

The Local Government Association (LGA) has played a pivotal role in assisting Councils implement the requirements of the revised legislation by provision of specialist resources, technical advice and a series of papers covering specific requirements envisaged by the legislation.

In addition to papers on Financial Sustainability the LGA provided the following information papers to assist Councils to implement the legislative changes.

- LGA Financial Sustainability Information Paper 3 “Audit Committees” which provides information on the establishment and structure for committees including Model Terms of Reference
- LGA Financial Sustainability Information Paper 14 “Model Work Program for Council Audit Committee” as a guide for individual Councils in establishment of a rolling work program for the Audit Committees, and
- LGA Financial Sustainability Information Paper 19 “Audit Committee Reporting”, a best practice approach for Audit Committees to report annually to Council

Most Councils appear to have used the papers as a framework for establishment of their Audit Committee and as a guide for the program of work which the Committees undertake in reviewing the governance, finance and accountability practices of Council's administration.

This Review of Operation of Council Audit Committees, given the expiry of two financial years since the January 2007 revision of the Act, was designed to assess -

- the effectiveness of the current legislation;
- whether Councils are fully meeting the requirements of the legislation;
- the usefulness of information papers prepared by the LGA to guide establishment and operation of Council audit committees;
- how audit committees are currently operating;
- how effective are audit committees in improving governance standards and increasing accountability (of Council operations) to the community.

The review is designed to cover -

- establishment issues
- operational issues
- effectiveness
- other issues

## **2 Methodology**

The study was broken into two stages in order to elicit as much objective information as possible directly from Councils and External Auditors on their experiences with Audit Committees and to use this information for further discussion with Local Government Practitioners and Audit Committees. That process has now been completed and a workshop with Audit Committee Chairs together with relevant Council staff has been undertaken to review the progress and outcomes to date

Information was initially obtained by way of a "desk top examination" of eleven (11) Councils to identify issues and refine questions for collection of data from all Councils. The desk top examination process involved establishing via each Council's website the following –

- meeting frequencies and duration of meetings
- review of agendas and minutes to understand the modus operandi of Audit Committees and identify issues being considered and recommendations made to Councils
- the extent of interface or contact with Council's External Auditor
- the nature of the content of agenda items
- extent of publication of Audit Committee deliberations
- anecdotal evidence on progress being made in addressing the requirements of the legislation
- to identify the existence of a work program for Audit Committees

Stage 1 used a previous LGA survey, the outcomes of the desktop evaluation, a questionnaire directed to CEOs and Council's External Auditors to establish a data set for analysis and review of Councils collectively in meeting the requirements of the legislation.

Stage 2 used the information obtained in Stage 1 to -

- conduct a survey of Audit Committee Chairs
- schedule a workshop with the Chairs of Audit Committees and relevant Council administrative staff.

#### **a. LGA Survey December 2008**

The LGA conducted a survey of Councils in December 2008 for the purposes of identification of Council's take up and the structure of Audit Committees. This survey was the initial "gathering" of information on the establishment and operation of the newly introduced Audit Committees. It was primarily designed to gather information about formation of Committees leaving aside "issues of establishment and operation".

#### **b. Desk Top Examination of Councils**

The intention of the desk top evaluation was to elicit information from publicly available sources on the extent and level of engagement in meeting the requirements of the legislation by a selected group of Councils. It was intended that a preliminary questionnaire designed by the consultant would be refined having regard to observed progress and comprehensiveness of the selected Councils.

The data collected was used in conjunction with comments from metropolitan CEOs and Council External Auditors to adjust the proposed data collection from Councils. In the first stage the questionnaires were restricted to data collection from Council Administrations and their External Auditors.

The desktop examination was undertaken in May prior to finalisation of the 2008/09 financial year and as a consequence did not include all activities and meetings for the 2008/09 financial year.

#### **c. CEO Questionnaire**

The questionnaires to Council Administrations and External Auditors requested specific information for tabulation plus any comments they wished to make to obtain an understanding of issues experienced in meeting the requirements of the legislation.

Those comments have been useful in understanding the present position of implementation and issues being dealt with by Councils and have been summarised in this report.

Councils' Administrations and External Auditors were given an assurance that any information provided would not be identified to a specific Council Administration or Auditor.

The questionnaire was emailed to Councils in the second week of May with a requested return date of June 5. The number of respondents during that 4 week period was 24 or 35% of all Councils. No attempt was made to follow up Councils that did not respond to the

questionnaire and compilation of the responses and conclusions derived from them have been made without reference to or clarification of answers provided. Generally those Councils that responded have taken the opportunity to make comment on the questions put to them and those comments have been beneficial in interpreting their responses.

#### **d. External Auditor Questionnaire**

The External Auditor questionnaire which elicited similar information to that sought from Council Administrations but with greater emphasis on the relationship between the External Auditor and the Audit Committee.

A copy of the questionnaire was sent to the External Auditor of each Council in May 2009 and 5 Auditors responded accounting for 53 of the 68 Councils.

#### **e. Audit Chairs Questionnaire**

In February 2010 the LGA circulated a questionnaire to the Chairs of Audit Committees (via the Office of the Chief Executive) of Councils for completion by the Committee Chair and return to the LGA by March 10. The purpose of the questionnaire was to elicit information directly from the Chairs of each Council Committee on, their views of the progress made in addressing the 2007 legislative changes, their opinions of the difficulties, if any, encountered in meeting the requirements of the legislation and the directions/assistance necessary to ensure “a continuous improvement process” by Councils.

It was intended that the questionnaires be collated to provide a state wide perspective of Councils progress and insight as to what further initiatives were necessary to support Councils meet the legislative requirements.

#### **f. Final Review Process**

The summarised data collected from the questionnaires and conclusions of the consultant were the subject of focus group meetings of Council Audit Committee Chairs and staff of Councils for finalisation of recommendations to the LGA.

Councils were also encouraged to consider and make written comment on the draft report prior to the final recommendations of the consultant.

### **3 Responses**

#### **a. Summary of LGA Survey December 2008**

The structure and composition of Audit Committees was the subject of an LGA Survey in December 2008. The responses identified the structure and membership as follows –

- All Councils indicated they had taken steps for appointment of Audit Committees.

- Number of members of Audit Committees -
  - 3 Councils had 6 members (which is more than the Act provides)
  - 33 Councils had 5 members
  - 19 Councils had 4 members
  - 13 Councils had 3 members
  
- Composition of Audit Committees –
  - 50 Committees had a majority of Council representation
  - 13 Committees had a majority of independents
  - 5 Committees had an equal representation of Independent Members and Councillors
  
- Presiding Member –
  - 31 Committees had an independent Chair
  - 37 Committees had the Mayor or an Elected Member as the Chair
  
- There was no data collection for Audit Committees for Council subsidiaries

## **b. Summary of Desk Top analysis**

A number of metropolitan and rural Councils (9) were selected by the Consultant to ascertain the level of progress achieved by their respective Audit Committees in meeting the requirements of the Local Government Act with particular attention to the January 2007 amendments.

The 9 Councils examined were selected without any prior reference to web sites where agendas and minutes were expected to be published. The selection comprised 3 large and 3 medium sized metropolitan Councils and 3 non metropolitan Councils. The desk top examination was undertaken based on review of the published agenda and minutes on their respective websites as this is the predominant manner in which interested parties or the community are likely and able to access Council information. Audit Committees are established under Section 41 of the Local Government Act and the requirements for publishing agenda and minutes apply as for Council. The ease with which information could be obtained varied considerably but in the main the information was available in a dedicated area of the website or alternatively could be accessed through cross-reference to the minutes and agendas of the Council meetings. More difficulty was experienced in locating Audit Committee agendas and minutes of non metropolitan Councils.

No serious attempt was made to ascertain the quality of the information and depth of deliberation of the Audit Committees however anecdotal observations indicated that the quality of reports and information provided to and considered by Audit Committees was of a reasonable standard and detailed in most cases to the satisfaction of the Committees.

Metropolitan Councils examined generally fell into two categories; larger Councils that often had dedicated staff or consultants addressing aspects of internal control, sustainability initiatives and service to their Audit Committee. These Councils appeared to have undertaken quite extensive work and were well advanced in meeting the requirements of the

legislation. Their Audit Committees appeared to meet more regularly; for longer periods of time and dialogue between the Audit Committee and Council appeared to be more frequent and detailed. Several of these Councils could be used as “models” for Councils addressing outstanding implementation issues. The second category comprised smaller metropolitan Councils whilst more constrained in terms of resources dedicated to the task had nevertheless undertaken most of the minimum standards required by the legislation. They generally had sound forward plans as to the manner in which they would meet the outstanding requirements, mainly in the 2009/10 financial year.

In summary, of the six metropolitan Councils reviewed

- 2 appeared to have met the requirements of the legislation
- 3 appeared to have met the requirements in a satisfactory manner or made good progress towards achieving that goal
- 1 did not appear to meet the requirements.

The frequency of meetings of Committees of the Councils ranged from 3 to 7 per annum with meeting times varying between 1 and 3 hours. A longer and more frequent meeting schedule was generally a good guide as to the extent to which Committees were meeting the requirements of the legislation.

The desk top audit of non metropolitan Councils was extended from 3 to 5 given that web based checking of minutes and agendas proved more difficult and at times the information could not be readily identified on their sites. This in part defeats the purpose for creating Audit Committees to improve governance and accountability standards to the community. It would be appropriate for Councils to publish Audit Committee agendas and minutes in the same manner and location as their other Section 41 Committees.

In summary those non metropolitan Councils examined had made progress towards meeting the requirements of the legislation but still had a number of outstanding issues to address Based on the “desk top examination” the uptake and extent to which non metropolitan Councils met the requirements of the 2007 legislation appeared to be dependent upon -

- the Audit Committee meeting schedule
- whether there was a coordinated rolling program which enabled the Committees to consider aspects of financial statements and audit activities concurrently with the Council.

Generally those Committees which met on a bi-monthly basis or at least quarterly with additional meetings to deal with specific items appeared better able to meet the requirements of the legislation.

Only 2 of the desktop tested Councils responded to the questionnaire, one metropolitan and one non metropolitan and their responses mirrored the observations of the desk top evaluation.

The desk top examination of non metropolitan and smaller Councils indicated generally they had made slower progress in meeting the requirements of the legislation; however this may have been a reflection of the levels of resources they were able to devote to sustainability functions and audit obligations.

Overall the desk top examination identified –

- clear evidence of Councils addressing progressively the requirements of Section 126 of the Local Government Act
- some gaps in terms of reviewing the adequacy of the exercise of powers under Section 130A in particular
- ongoing difficulties in reviewing the adequacy of internal control, and financial management systems
- a degree of confusion re the role of the Audit Committee, the External Auditors, and the Administration of the Council.

Anecdotally, while the structure of the Committees did not necessarily determine progress of Committees in meeting their objectives, the desk top examination appeared to suggest those Audit Committees with Independent Chairs and majority of Independent Members were progressing at a faster rate and reviewing issues in more depth than those where Elected Members represented a majority of the Members.

The questionnaire addressed to CEOs and Council External Auditors were modified in an attempt to elicit more information in the areas of perceived weakness.

### c. Summary of CEO questionnaire responses

While only 24 Councils responded to the questionnaire distributed by the LGA the responses are considered to be a reasonable representation of the issues faced by all 68 Councils. Of the 11 which were subject to desktop examination, 9 did not respond to the questionnaire however review of their meeting frequencies and issues identified in their minutes and agendas suggests their experiences were not inconsistent with those for which responses were received. Inclusion of information derived through the “desk top examination” means that a total of 33 of the Council have been subjected to some form of assessment by the consultant.

The following is a summary of the responses and comments made by the respondents.

<b>Question 1</b>	<i>Have there been any significant changes to the composition and meeting frequency since 2008?</i>
<b>YES: 3 (12%)</b>	<b>NO: 21 (88%)</b>

Response      The overwhelming response was that there have been no changes. However the desk top examination indicated that the number and duration of meeting times had tended to increase. They also appear to have become more structured around the end and/or commencement of financial year to accommodate issues such as review of financial statements, annual business plan and discussion with the External Auditor.

**Comments of respondents included -**

- there are immediate issues to be dealt with
- the Audit Committee now meets on a monthly basis
- Council has changed its membership to a majority of independent members and this has improved the progress made significantly

<b>Question 2</b>	<i>Has your Council been able to assess and attract suitable members for its Audit Committee?</i>	
<b>YES: 24 (100%)</b>	<b>NO: 0 (0%)</b>	<b>NO COMMENT: 0 (0%)</b>

Response      **Comments of respondents included -**

- the ability to attract 3 (a majority of) independent members with “strong skill sets” can be problematic
- there has been a reasonable amount of interest from experienced and qualified people
- responses were limited

- there was strong support regarding the skills and focus provided by Independent Members and Independent Chair of Committees.

**Question 3** *Do you consider the Audit Committee membership as it is presently structured has the necessary skills and experience to adequately discharge its responsibilities?*

**YES: 22 (92%)**

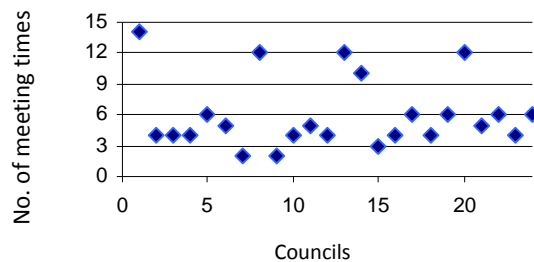
**NO: 1 (4%)**

**NO COMMENT: 1 (4%)**

**Response** **Comments of respondents included -**

- a majority of Independent Members including the Chair provides a desirable and appropriate mix
- yes, but the complexity of local government finance reporting has made it difficult for Elected Members to understand the issues comprehensively
- independents bring a wealth of experience
- the Presiding Chairperson (of Council) drives the Committee solidly
- consideration being given to more Independent Members and/or Independent Chair
- Council recently changed its Committee structure to improve its performance.

**Question 4** *How many times per year does your Audit Committee meet?*



**Response** The responses ranged from 2 to 14 times with the majority of respondents being between 4 and 6.

**Comments of respondents included -**

- those who schedule 4 meetings have to supplement them with special meetings
- a number of respondents indicated that they expect to meet at least bi-monthly.

**Question 5** *Has your Council encountered any difficulties in being able to service the work of the Audit Committee?*

**YES: 7 (29%)**

**NO: 16 (67%)**

**NO COMMENT: 1 (4%)**

Response

**Comments of respondents included -**

- resourcing levels (by Council) mean that 2 meetings per annum is the best achievable
- difficulties addressing priority of conflicting workloads
- staff have struggled to organize meetings and provide sufficient strategic advice for the Audit Committee to be effective
- time and resources to complete tasks has been underestimated
- the whole financial sustainability program has created considerable more workload, the Audit Committee is just one of these areas
- Council staff have not been able to provide across the board, risk management and internal audit information due to resource constraints
- it is a new Committee and is slowly finding its feet.

**Question 6** *Has your Audit Committee established a rolling work plan?*

**YES: 22 (92%)**

**NO: 0 (0%)**

**NO COMMENT: 2 (8%)**

**Question 7(a)** *Does this work plan include the following issues: Financial Reporting?*

**YES: 22 (92%)**

**NO: 1 (4%)**

**NO COMMENT: 1 (4%)**

**Question 7(b)** *Does this work plan include the following issues: External Audit?*

**YES: 21 (88%)**

**NO: 2 (8%)**

**NO COMMENT: 1 (4%)**

**Question 7(c)** *Does this work plan include the following issues: Internal Controls & Risk Management?*

**YES: 23 (96%)**

**NO: 0 (0%)**

**NO COMMENT: 1 (4%)**

**Question 7(d)** *Does this work plan include the following issues: Internal Audit?*

**YES: 21 (88%)**

**NO: 1 (4%)**

**NO COMMENT: 2 (8%)**

**Question 7(e)** *Does this work plan include the following issues: Whistle Blowing?*

**YES: 17 (71%)**

**NO: 6 (25%)**

**NO COMMENT: 1 (4%)**

**Question 7(f)** *Does this work plan include the following issues: Reporting to Council?*

**YES: 22 (71%)**

**NO: 1 (25%)**

**NO COMMENT: 1 (4%)**

Response

**Comments of respondents included -**

- whistle blowing policy not currently in place
- risk management information has been limited to asset management (only)
- work plan in draft format at this stage.

**Question 8** *Does the Audit Committee report regularly to Council?*

**YES: 23 (96%)**

**NO: 1 (4%)**

**NO COMMENT: 0 (0%)**

**Question 9(a)** *If "Yes", does it report: Following each meeting?*

**YES: 20 (83%)**

**NO: 3 (13%)**

**NO COMMENT: 1 (4%)**

**Question 9(b)** *If "Yes", does it report: Annually?*

**YES: 12 (50%)**

**NO: 6 (25%)**

**NO COMMENT: 6 (25%)**

**Question 9(c)** *If "Yes", does it report: Other?*

**YES: 2 (8%)**

**NO: 11 (46%)**

**NO COMMENT: 11 (46%)**

Response

The Comments indicate there was some confusion re reporting. Audit Committees are established under Section 41 of the Act and the Minutes of the Audit Committee must be considered and endorsed by Council to give effect to any recommendations or proposed actions. Ideally proposed actions should be accompanied by a formal report from the Audit Committee to the Council

and should have advice from the CEO regarding any resource and governance implications. The requirement to report to Council on an annual basis had not been fully taken up and the use of Information Paper 19 "Audit Committee Reporting" issued in September 2008 appeared limited at this juncture.

**Question10(a)***Do you believe the Audit Committee's current reporting to Council is satisfactory in terms of - format?*

**YES: 23 (96%)      NO: 1 (4%)      NO COMMENT: 0 (0%)**

**Question10(b)***Do you believe the Audit Committee's current reporting to Council is satisfactory in terms of- frequency?*

**YES: 22 (92%)      NO: 1 (4%)      NO COMMENT: 1 (4%)**

**Question10(c)***Do you believe the Audit Committee's current reporting to Council is satisfactory in terms of - quality and relevance of information?*

**YES: 20 (83%)      NO: 3 (13%)      NO COMMENT: 1 (4%)**

**Question 11(a)***Do you consider that the Audit Committee as it is presently structured and operating meets the legislative requirements and in particular those included in Section 126 of the LGA 1999.  
- reviewing annual financial statements.*

**YES: 23 (96%)      NO: 1 (4%)      NO COMMENT: 0 (0%)**

**Question 11(b)***Do you consider that the Audit Committee as it is presently structured and operating meets the legislative requirements and in particular those included in Section 126 of the LGA 1999.  
- proposing and contributing to a review of Council's Strategic Management and Annual Business Plans*

**YES: 20 (84%)      NO: 2 (8%)      NO COMMENT: 2 (8%)**

**Question 11(c)***Do you consider that the Audit Committee as it is presently structured and operating meets the legislative requirements and in particular those included in*

*Section 126 of the LGA 1999.*

*- proposing and reviewing the conduct of Efficiency and Economy Audits*

**YES: 18 (75%)**

**NO: 4 (17%)**

**NO COMMENT: 2 (8%)**

**Question 11(d)** *Do you consider that the Audit Committee as it is presently structured and operating meets the legislative requirements and in particular those included in Section 126 of the LGA 1999.*

*- performing the role of audit committee for a subsidiary exempted from having its own Audit Committee*

**YES: 13 (54%)**

**NO: 4 (17%)**

**N/A: 6 (25%)**

**NO COMMENT: 1 (4%)**

**Question 11(e)** *Do you consider that the Audit Committee as it is presently structured and operating meets the legislative requirements and in particular those included in Section 126 of the LGA 1999?*

*- liaising with Council's External Auditor*

**YES: 23 (96%)**

**NO: 0 (0%)**

**NO COMMENT: 1 (4%)**

**Question 11(f)** *Do you consider that the Audit Committee as it is presently structured and operating meets the legislative requirements and in particular those included in Section 126 of the LGA 1999.*

*- reviewing the adequacy of Council's internal audit/control and other financial management system on a regular basis*

**YES: 23 (96%)**

**NO: 0 (0%)**

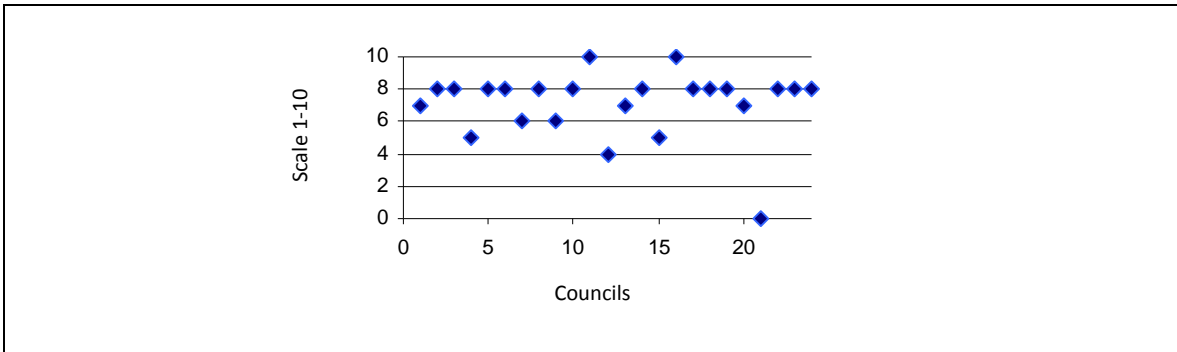
**NO COMMENT: 1 (4%)**

Response

**Comments of respondents included -**

- Audit Committee not strictly complying to the Act due to time constraints
- Council is not adequately resourced to cover all these requirements
- Committee has not been involved in Strategic Plan or issues of efficiency and economy audits.

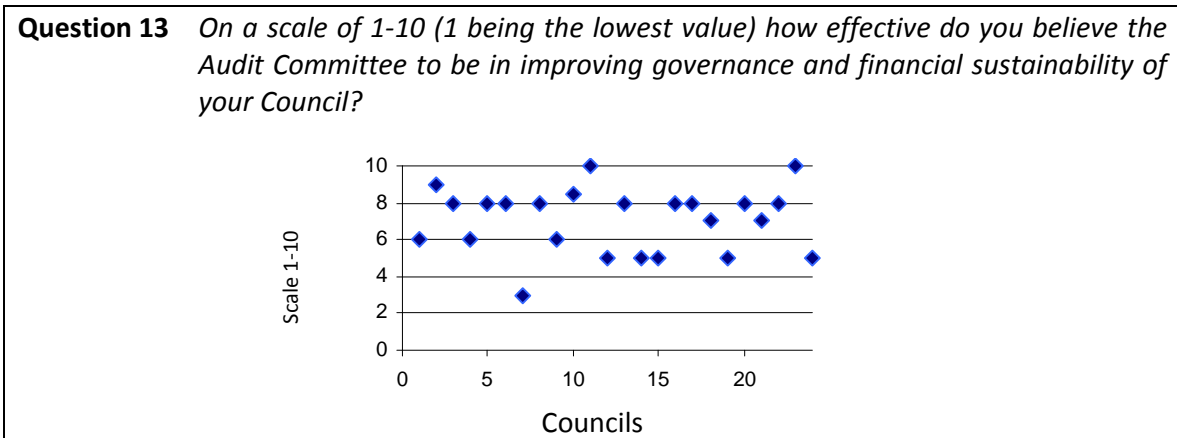
**Question 12** *On a scale of 1-10 (1 being the lowest value) how effective do you believe this legislative framework for Audit Committees to be?*



Response The responses to this question varied from a low of 4 to a high of 10 with 8+ being the majority score.

**Comments of respondents included –**

- overall the legislative framework is effective with the exception of the requirement for comment or input to the Council Strategic Plan and Annual Business Plan
- financial standards were high to begin with and expectations of independent members are high. Their lack of appreciation of limited resources has led to frustration in lack of progress re risk management and internal audit.

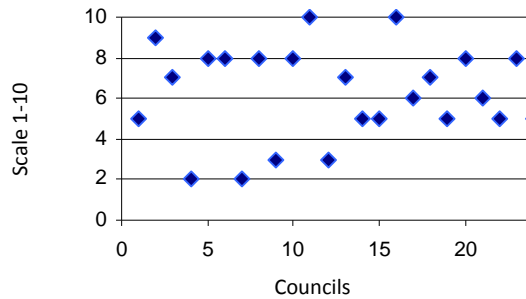


Response The responses to this question range from a low of 3 to a high of 10 with 50% of respondents indicating a score of 8(+).

**Comments of respondents included –**

- our Council’s governance and financial sustainability standards have always been high
- financial standards were high to begin with
- high standards of governance and financial accountability have always existed in Council.

**Question 14** On a scale of 1-10 (1 being the lowest value) how effective do you believe the Audit Committee to be in increasing the accountability of your Council to the community?

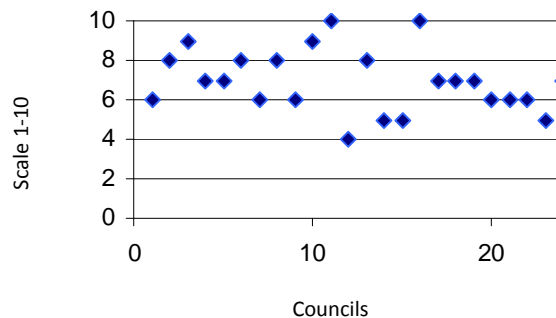


**Response** Responses to this question range from a low of 2 to a high of 10 with the most common score being in the 5-8 range.

**Comments of respondents included –**

- whilst the Audit Committee may facilitate this Council already operates within a high transparent and accountable environment
- community are aware that Council has an Audit Committee containing independent membership
- Council was already accountable with much of the work of the Audit Committee being a duplication
- accountability has been improved more by annual reports and annual business plans than by Audit Committees
- the elected members particularly believe it has increased the accountability
- believe management accountability to community to have always been at a score of 10
- by the Audit Committee questioning issues making recommendations to Council this will (hopefully) give the community confidence in the accountability of the Council.

**Question 15** On a scale of 1-10 how would you assess the value of the Audit Committees work on reviewing the adequacy of internal controls and risk management systems.



Response The responses ranged from a low of 4 to a high of 10 with a majority rating it between 5-7.

**Comments of respondents included –**

- the Audit Committee has been able to confirm the adequacy of internal controls and risk management systems
- high score reflects resources allocated by Council towards developing and monitoring appropriate internal controls and risk management systems strongly supported by the independent Chair
- major focus on issues such as internal controls will be in the 09/10 financial year
- risk management systems not yet assessed in detail
- risk management has yet to be a major focus of Audit Committee
- the Committee would probably state that reviewing their effectiveness particularly in relation to risk (management) has been frustrated by limitations of the level of Council's resources

**Question 16** *Overall do you feel the Audit Committee is adding value to Council?*

**YES: 19 (79%)**

**NO: 3 (13%)**

**NO COMMENT: 2 (8%)**

Response A substantial majority indicated "Yes" to this question however a minority of 5 indicated "No" or "No Comment".

**Comments of respondents included –**

- the Audit Committee provides an additional level of assurance to Council
- provides Council with the comfort of understanding that various matters are being investigated/reviewed and progressed
- the Audit Committee has not played a significant role to date
- the Audit Committee provides a focus for making suggestions and recommendations to Council on issues relating to governance and financial sustainability
- the committee has certainly been able to add some weight to endeavours to improve accountability and performance.

**Question 17** *Has your Council used appropriate papers prepared by the LGA to guide the establishment and operation of Audit Committees?*

**YES: 22 (92%)**

**NO: 2 (8%)**

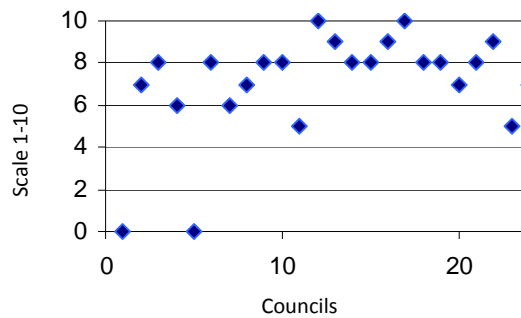
**NO COMMENT: 0 (0%)**

Response All but two councils responded "Yes" to this question with those indicating "No" stating they already had in train a process but would use the papers for review purposes.

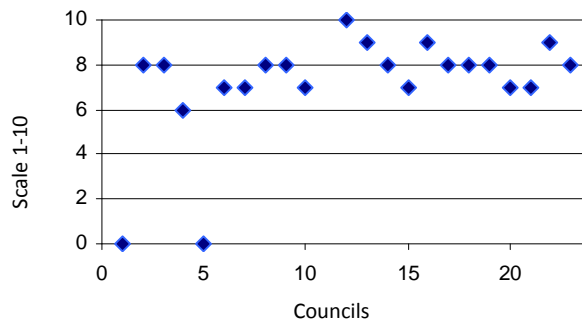
**Comments of respondents included –**

- the papers have been used as templates for preparing relevant policies and procedures
- used as starting point documents
- papers were informative
- information papers were used more in initial set up of the Audit Committees
- papers “3” and “14” were used as the basis of implementing the audit committee
- all 3 documents were used as guidelines.

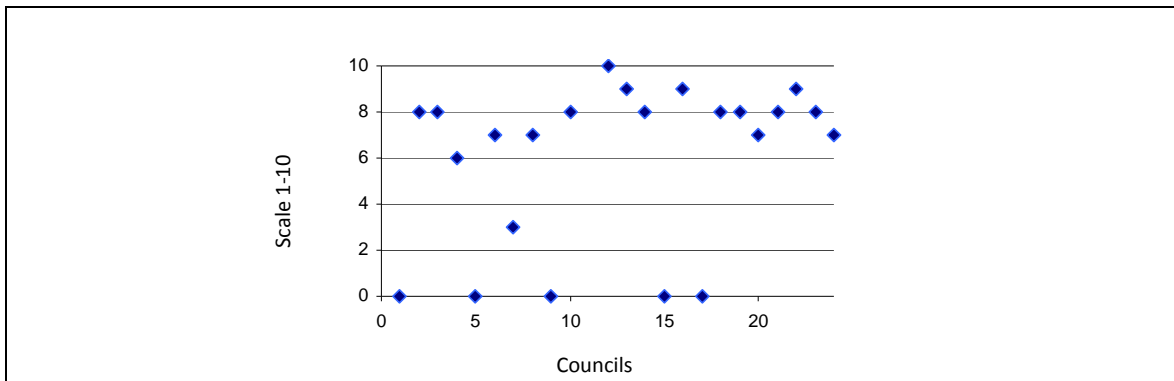
**Question 18(a)** *If yes please rank their usefulness on a scale of 1-10 (1 being the lowest value) - Information Paper 3 (Audit Committees)*



**Question 18(b)** *If yes please rank their usefulness on a scale of 1-10 (1 being the lowest value) - Information Paper 14 (Model Work Program for Council Audit Committees)*



**Question 18(c)** *If yes please rank their usefulness on a scale of 1-10 (1 being the lowest value) - Information Paper 19 (Audit Committee Reporting)*



**d. Summary of External Auditor questionnaire responses**

Responses from External Auditors were limited to 5 returns however those returns represented a total of 53 Councils. In undertaking analysis of the responses both the actual responses (5) and a weighted average is provided in **(brackets)** based upon the total number of councils audited (53). It has been assumed that the comments made and ratings given by the Auditor apply equally to each of the Councils they represent.

**Question 1** *For the Councils that you audit, how many times per year does the Audit Committee meet with you as External Auditor?*

**ONE MEETING: 3 (94%)      TWO MEETINGS: 1 (4%)      NO MEETINGS (2%)**

**Question 2** *For the Councils that you audit do you consider the Audit Committee membership as it is presently structured has the necessary skills and experience to adequately discharge its responsibilities?*

**YES: 4 (75%)      NO: 1 (25%)**

Response **Comments of respondents included -**  
 - One respondent with multiple Councils indicated most Audit Committees have now settled in and are focussing on addressing their statutory responsibilities.

**Question 3** *Have Councils in rural areas in particular been able to access and attract appropriately skilled independent persons to serve on Audit Committees?*

**YES: 4 (75%)      NO: 1 (25%)**

**Question 4(a)** *For the Councils that you audit do you consider the Audit Committee as it is presently structured and operating, meets the current legislative requirements*

*and in particular those included in Section 126 of the Local Government Act 1999 in terms of  
– reviewing annual financial statements?*

**YES: 4 (75%)                      NO: 1 (25%)**

**Question 4(b)** - *proposing and contributing to a review of Council's Strategic Management and Annual Business Plans?*

**YES: 3 (71%)                      NO: 2 (29%)**

**Question 4(c)** - *proposing and reviewing the conduct of Efficiency and Economy Audits?*

**YES: 3 (71%)                      NO: 2 (29%)**

**Question 4(d)** - *performing the role of Audit Committee for a subsidiary that Council has exempted from having its own Audit Committee?*

**YES: 2 (6%)                      NO: 2 (91%)                      N/A: 1 (3%)**

Response            There is a degree of uncertainty about the responses and whether the question has been correctly interpreted.

**Question 4(e)** - *liaising with Councils External Auditor?*

**YES: 3 (74%)                      NO: 2 (26%)**

**Question 4(f)** - *reviewing the adequacy of Council's internal audit/control and other financial management systems on a regular basis?*

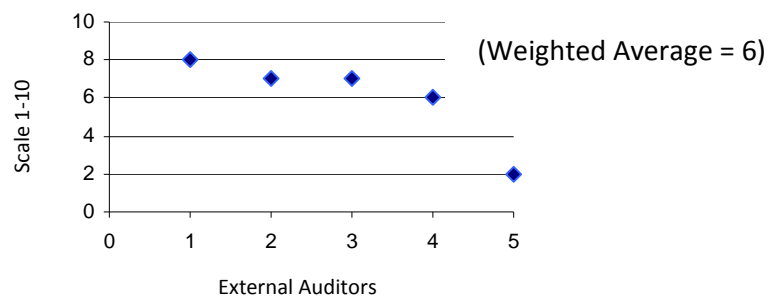
**YES: 3 (72%)                      NO: 2 (28%)**

Response            This response is somewhat contrary to the comments provided by Council CEOs in their questionnaire.

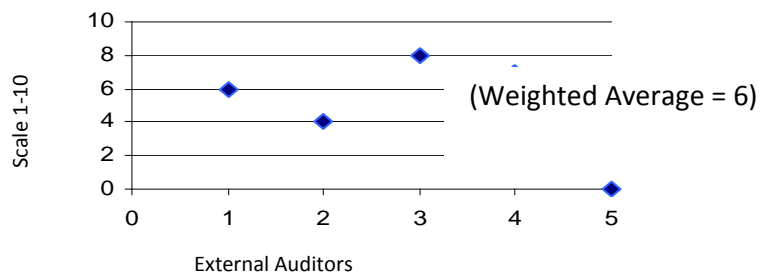
**Comments of respondents included –**

- Not all committees fulfil all prescribed requirements but are getting increasingly more focussed. We think that over 2009/10 financial year most, if not all, outstanding issues will be addressed by Audit Committees. The situation re subsidiaries/regional subsidiaries is a significant issue and it is strongly suggested that these bodies have their own Audit Committees and be subject to the same requirements as Councils.

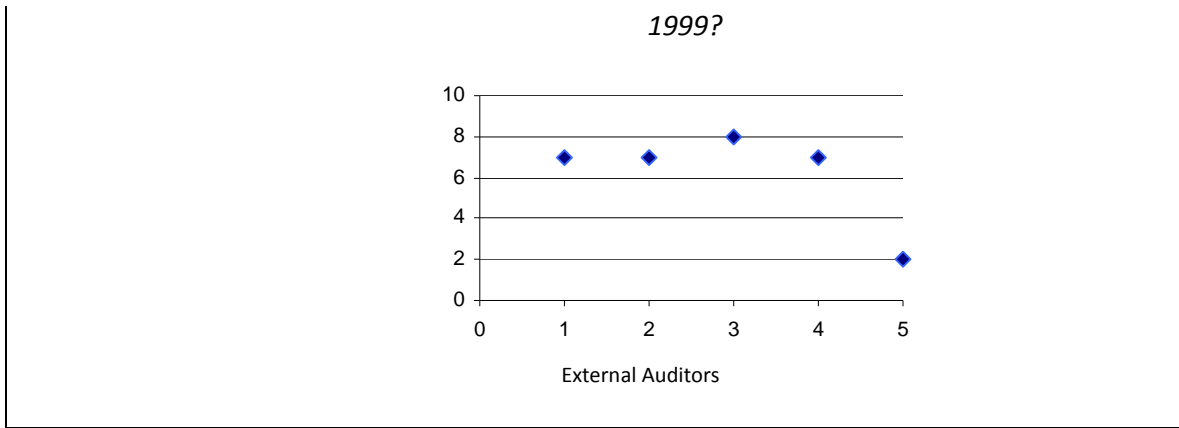
**Question 5** *On a scale of 1-10 (1 being the lowest value) how effective do you believe the legislative framework for Audit Committees to be?*



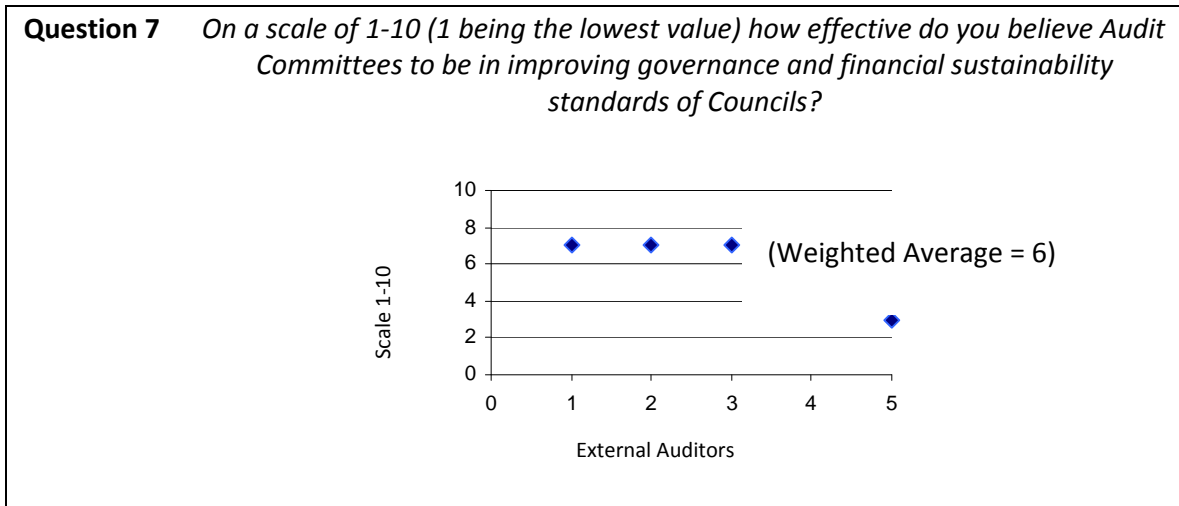
**Question 6(a)** *On a scale of 1-10 (1 being the lowest value) how would you assess – the value in general of Audit Committees’ work on reviewing Council systems?*



**Question 6(b)** *On a scale of 1-10 (1 being the lowest value) how would you assess – the overall performance in meeting the requirements of the Local Government Act*



- Response**      **Comments of respondents included -**
- Resourcing the (Audit) Committees is the main issue
  - Unless they meet say monthly, the effectiveness of their reviews is limited
  - It is difficult to review parts of Council's systems without becoming too involved.



- Response**      **Comments of respondents included -**
- (Audit) Committees are another sounding board for Councillors and administration (Senior Management) and External Auditor
  - They all tend to focus on long term sustainability as well as governance matters which is a good outcome.

**Question 8**      *Do you consider that Audit Committees' approaches to reviewing the adequacy of internal controls and risk management systems are general satisfactory?*

**YES: 3 (72%)                      NO: 2 (28%)**

- Response      **Comments of respondents included –**
- Initially “No”, but Committees are increasing undertaking such reviews as they gain a better understanding of their environs.

**Question 9**      *For those Councils that you audit, are you satisfied with the Audit Committees’ current interface with you as External Auditor?*

**YES: 2 (70%)                      NO: 3 (30%)**

**Question 10**      *Do you consider that the information in an audit management letter arising from either an interim or final audit (which will subsequently be tabled at a meeting of the Audit Committee or Council) exposes the Council to unnecessary risks?*

**YES: 0 (0%)      NO: 52 (100%)**

**Question 11**      *What, if any, weaknesses can you identify in the structure and operations of Audit Committees in Councils you audit?*

- Response      **Comments of respondents included –**
- To be fully effective they would need to meet more frequently – probably monthly
  - They need to be better resourced to initiate special reviews
  - The issue of subsidiaries being subject to the same rules as Councils needs to be addressed from a legislative perspective
  - Potential difficulty of finding appropriate (skilled) member in country areas
  - The role of Chair should not be with the Mayor but rather with one of the Councillors or Independent Members
  - Personnel have very limited expertise to enable members to provide meaningful input

**Question 12**      *Do you have any specific suggestions on how the work of the Audit Committees could be improved?*

- Response      **Comments of respondents included –**

- More frequent meetings would address most issues
- Consistency in the conduct and outcomes of the Committees would be beneficial
- Resourcing is an issue
- More clarity to existing and potential members as to the relevant role, responsibility, exposure, value and how the process meshes with the External Audit responsibility
- Defining the Committee's role and responsibility compared with Council
- Minutes and reports of Audit Committees should be forwarded to the External Auditor
- Audit Committee members could receive (greater) training on their roles and responsibilities and on financial accounting and internal controls
- Regional well qualified audit committees should carry out the job for small councils with representation from local members.

The responses of the External Auditors generally mirrored those of Council Administrations however they did emphasise the following more forcefully than Councils' administrative response -

- Councils have taken longer than anticipated to fully implement the revised requirements
- resourcing of Councils is an issue particularly smaller and regional Councils where the level of expertise of Council staff is limited partially due to the number of staff and competing priorities for those resources
- additional meetings probably on a monthly basis would resolve most issues.

#### **e. Summary of Audit Chairs questionnaire responses**

As at March 12 a total of 33 i.e. 48% of Audit Chairs responses had been received by the LGA and were forwarded to the Consultant for review; tabulation and inclusion into the Draft Final Report.

No attempt was made to follow up Audit Chairs who did not respond to the questionnaire , nor was verification undertaken that the questionnaire was completed by the Chair of the respective Audit Committee.

Generally the Chairs who responded to the questionnaire have taken the opportunity to make constructive comment as part of their response and this has been of great assistance in interpreting and summarising their responses.

<b>Question 1</b> <i>Do you consider the Audit Committee membership as it is presently structured has the necessary skills and experience to adequately discharge its responsibilities?</i>
---

**YES 28 (85%)**

**NO 5 (15%)**

Response. The overwhelming response is that Audit Committees membership has the skills and experience to discharge its legislative responsibilities.

**Comments of respondents included –**

- We are a corporate governance committee who also fulfil the role of audit committee
- There have been many changes to our committee since it was first implemented to our Council; although training has been undertaken by committee members to get some understanding of our role, we have not had a lot of experience as an audit committee (other than what we have learnt as being elected members).
- Council Members' relevant technical skills are limited but participants are conscientious and have good practical knowledge and understanding.

**Question 2** *Has your Council encountered any difficulties in being able to service the work of the Audit Committee?*

**YES 7 (21%)**

**NO 25 (75%)**

**N/C 1 (4%)**

Response. Whilst the majority 76% indicated that there were no difficulties encountered in servicing the Audit Committee a quarter of the respondents did and reinforced the comments of the CEO responses which indicated 29% of Councils had encountered difficulties in servicing the Committee.

**Comments of respondents included –**

- Council is properly resourced to undertake the work required
- Funding has yet to be allocated in respect of an internal audit function
- Staff have to address Committee and sustainability issues on top of their normal workload, progress has not been as fast as I would have liked.

**Question 3** *Do you consider there is any overlap between the role and responsibility of the Audit Committee and other committees of Council?*

**YES 4 (12%)**

**NO 29 (88%)**

Response. The purpose of the question was to elicit possible duplication/overlap between Council Committees, however this is not seen as an issue by Audit Chairs.

**Comments of respondents included –**

- All committees know what their roles are

- In a small way some overlap with Finance and Administration
- The Audit Committee and the Finance and Corporate Policy Committees have been complementary with some Council Members on both, this has led to a greater understanding of councils finances and processes, whilst not compromising the Audit Committee under the Act.

**Question 4** *Does the Audit Committee you chair, report regularly to Council?*

**YES 26 (79%)**

**NO 7 (21%)**

Response. Based on responses to question (4) and (5) there appeared to be a need for reports from Audit Committee to be more regularly considered by Councils. The Committees are established under Section 41 of the Local Government Act and their agenda and minutes should be treated on the same basis as other Committees of Council. This is particularly important where the Committee has recommendations or actions to be implemented by the Administration of Council.

**Comments of respondents included –**

- Agendas and reports are provided to all Councillors. Minutes of the meeting including recommendations are tabled at the next Council meeting
- Copy of the Audit Committee minutes circulated to Councillors with normal Agenda and a written report submitted annually
- Will report as required and always submit annual report.

**Question 5** *If yes, does it report –*

(a) following each meeting

**YES 18 (55%)**

**NO 12 (36%)**

**N/C 3 (9%)**

(b) annually

**YES 18 (55%)**

**NO 7 (21%)**

**N/C 8 (24%)**

(c) other

**YES 10 (30%)**

**NO 12 (37%)**

**N/C 11 (33%)**

Response. Based on the responses to (5) and (4) above, it is apparent that the reporting requirements were either misunderstood or not being followed through by Council Administrations. This was also noted as an issue in the desktop audit.

**Comments of respondents included –**

- Happens periodically, less than annually but would happen more frequently if issues particularly warranted
- The Audit Committee presents an annual report to Council. When appropriate the Chairperson of the Audit Committee may bring to the attention of Council, any issue the Audit Committee deems necessary
- We make recommendations where appropriate but only report on our performance annually.

**Question 6** *Do you consider that the Audit Committee, as it is presently structured and operating, meets the current legislative requirements, and in particular, those included in Section 126 of the Local Government Act 1999, in terms of-*

(a) reviewing annual financial statements

**YES 33 (100%) NO 0 (0%)**

(b) proposing and contributing to a review of Council's Strategic Management and Annual Business Plans

**YES 31 (94%) NO 2 (6%)**

(c) proposing and reviewing the conduct of Efficiency and Economic Audits

**YES 25 (76%) NO 7 (21%) N/C 1 (3%)**

(d) performing the role of Audit Committee for a subsidiary that Council has exempted from having its own audit committee

**YES 17 (52%) NO 2 (6%) N/C 1 (3%) N/A 13 (39%)**

(e) liaising with Council's external auditor

**YES 29 (88%) NO 4 (12%)**

(f) reviewing the adequacy of Council's internal audit/control and other financial management systems on a regular basis

**YES 30 (91%) NO 3 (9%)**

Response. The responses mirror those of the CEO questionnaire responses and are more favourable than the External Auditor questionnaire. Based on all three questionnaires and the desktop audit there remained a significant amount of work to be done in respect of review of -

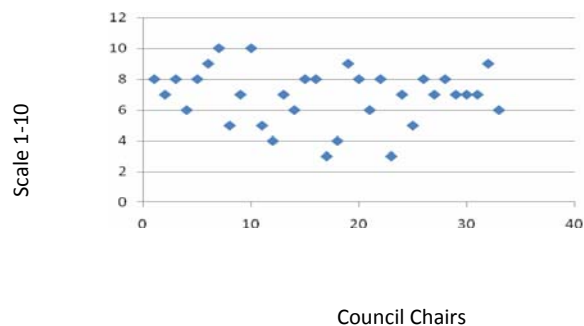
- Council's Strategic Management and Annual Business Plans
- Liaising with Council's External Auditor
- Proposing and reviewing the conduct of Efficiency and Economy Audits.

**Comments of respondents included –**

- our Council has not had an internal auditor in the past but costs have been approved to have a review of internal financial controls undertaken

- we have not proposed Efficiency and Economy audits. Would do so if warranted but should not be encouraged. Other mechanisms better in most circumstances and Efficiency and Economy Audits should be used as a last resort
- there needs to be dedicated training for committee members particularly in regional areas. The role of the audit committee and its members seems cloudy and somewhat unclear
- incorporating asset management plans into long term financial plans is taking longer than expected
- one area of concern is that we have been unable to make any progress on, is the goals in the Strategic plan. The goals of the plan are vague. I believe Councillors do this so they can be flexible.

**Question 7** *On a scale of 1-10 (1 being the lowest value) how effective do you believe the Audit Committee to be in increasing the accountability of your Council to the community?*

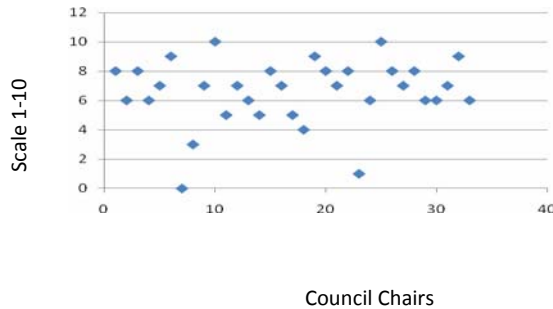


**Response.** There is a wide range of scores from a low of 3 to a high of 10. Most respondents scored between 6 and 8 with a median score of 6.9. With 2 years experience, it was expected that a median figure of 8(+) would have been achieved

**Comments of respondents included –**

- Council staffs’ understanding of governance and sustainability issues have increased substantially. Unfortunately I don’t believe that all elected members share the same commitment
- Governance limited to financial governance related to date. (Local Government Act does not mandate broader role.) Council has been doing good work in progressing above and the Audit Committee has provided support
- There is currently much debate from Members of both Council and the Audit Committee in relation to whether items should be presented to Council or the Audit Committee in the first instance
- need to really champion some causes.

**Question 8** *On a scale of 1-10 (1 being the lowest value) how effective do you believe the Audit Committee to be in increasing the accountability of your Council to the community?*

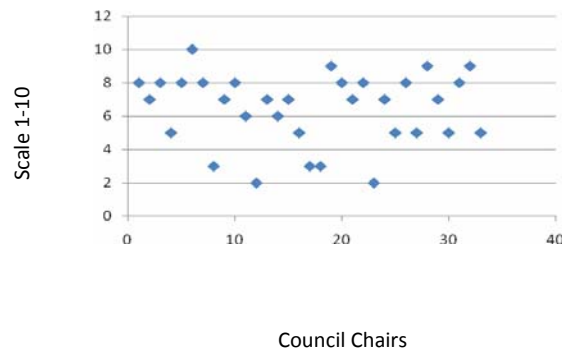


Response. There is a wide range of scores from a low of 1 to high of 10. The median score is 6.7 for those respondents who gave a score. This is not a particularly high level of achievement. Questions 7, 8 and 9 are rated below that of the CEO questionnaire responses.

**Comments of respondents included –**

- I don't see that this has happened although I successfully moved within the Chamber that Council adopt a good governance and administration practice policy, a fraud and prevention policy and a whistleblower policy (it was a hard battle though).
- again there is still work to be done but it is improving all the time.

**Question 9** *On a scale of 1-10 (1 being the lowest value) how would you assess the value of the Audit Committee's work on reviewing the adequacy of internal controls and risk management systems?*



Response. The median score for Councils that responded to this question is 6.4 which is not a particularly highly rated response.

**Comments of respondents included –**

- We can always do better. Internal controls are so important in a government enterprise and often management doesn't see that this is the case.
- the Committee relies on reports about internal controls
- we have reviewed good work done by management
- some progress but more to be done here.

**Question 10** *Overall do you feel the Audit Committee is adding value to Council?*

**YES 30 (91%)**

**NO 3 (9%)**

Response. The overall response was quite high and reflects a commitment of Audit Committees to provide independent advice to Council.

**Comments of respondents included –**

- we act as a filter of information and our recommendations are taken seriously by Council
- Council has acknowledged the value of the work of the Audit Committee and the additional assurances it provides
- given time, I think it will add value to Council

**Question 11** *Has your Committee had access to, and used, papers prepared by the LGA to guide the establishment and operation of Council Audit Committees?*

**YES 31 (94%)**

**NO 1 (3%)**

**N/C 1 (3%)**

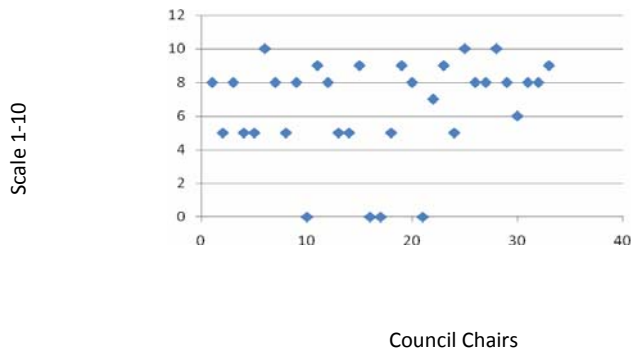
Response. A significant proportion of the Councils have found value in or relied on the LGA papers

**Comments of respondents included –**

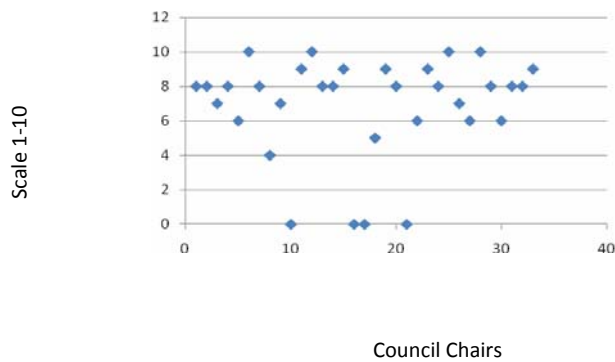
- I requested that the CEO give all members a copy of information 3, 14, 19 and 21. In addition we have just updated our Terms of Reference.
- the LGA template for Terms of Reference were adopted and the Committee is working through the Work Program as prepared
- these documents were invaluable in understanding the act, the responsibilities of an audit committee and provided guidance in the establishment of the committee and developing Terms of Reference.

**Question 12** *If yes, rank their usefulness on a scale of 1-10 (1 being the lowest value)*

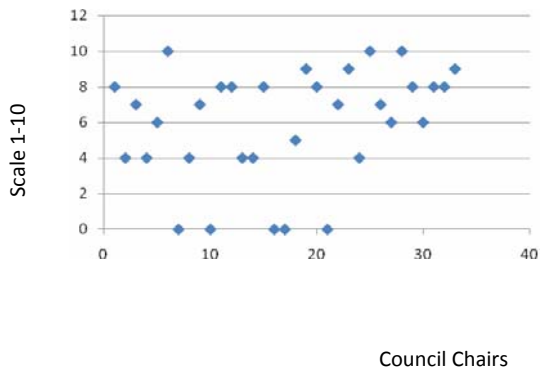
Information Paper 3: 'Audit Committees'



Information Paper 14: 'Model Work Program for Council Audit Committees'



Information Paper 19: 'Audit Committee Reporting'

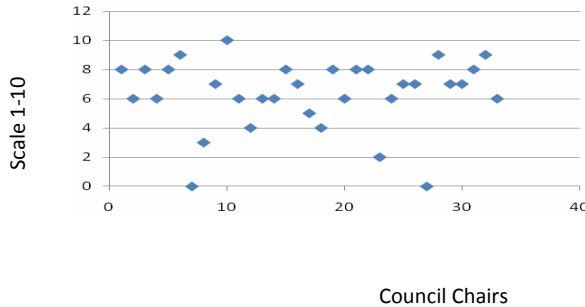


Response. Councils have relied significantly on the information papers produced by the LGA in achieving the outcomes thus far and it is important that papers on internal controls, efficiency and economy audits are produced as a matter of urgency to ensure the continuous improvement process is maintained.

**Comments by respondents included –**

- very beneficial
- Audit Committee work program based on Paper 14. Have not formally considered Paper 19 (likely to be too prescriptive for local circumstances).
- there was some duplication of information across the documents complimented/supplemented each other. It is therefore considered important that these documents be used collectively as a guide during the development/establishing of an Audit Committee.

**Question 13** *On a scale of 1-10 (1 being the lowest value) how would you assess the value, in general, of your Audit Committee’s work on reviewing Council systems?*



Response. The average of 6.7 for this question suggests that additional emphasis is required as part of subsequent audit work plans.

**Comments of respondents included –**

- we work in concert with the management and request updates regularly on system and controls
- to date this would not rate well but now a work plan has officially been adopted, things will move on from here
- have looked at some
- recommendations going forward to Council are designed to enable Council to then review its options and generally adopt cost savings practices and/or tighten up internal controls.

**Question 14** *Are you satisfied with your Audit Committee’s current interface with Council’s external auditor?*

**YES 25 (76%)                      NO 8 (24%)**

Response. The level of satisfaction of Audit Committees with the external auditor was somewhat surprising and indicates further consideration of clarity of roles and responsibilities.

**Comments of respondents included –**

- we are yet to meet the external auditor although we get reports from him after every audit. There has been correspondence sent to the external auditor from staff without the audit committee viewing or commenting beforehand
- the Committee is arranging its first visit to independently discuss matters with the auditor
- extremely happy
- in its first year of operation the Audit Committee called tenders for the provision of External Audit services. This resulted in Council replacing its External Auditor
- Audit letters are still being retained by GM Finance for actioning before being sent to the Audit Chairman even though the letters are addressed to the Chair.

**Question 15** *What, if any, weaknesses can you identify in the structure and operation of the Audit Committee in your Council?*

Response. Most comments in this part of the questionnaire revolved around lack of resources and/or the need for assistance and training for members of the Committees.

**Comments of respondents included –**

- we probably need a readily available resource at our disposal to extend the work and influence what we have
- to date the audit committee has not really run as it is intended for various reasons. Members of the committee can only service a maximum of two concurrent terms (should be consecutive terms, maximum of 6 meetings. I have missed occasional meetings because the CEO has called them when I have been on leave and to date the CEO has stated the times, dates of meetings, without ever having consultation with any of the members.
- elected members having varying degrees of understanding of financial matters
- the members of the Audit Committee who are elected members, generally do not have the expertise to be able to look beneath the numbers in financial matters nor the experience in business operations and practices to have significant input towards improving standards.

**Question 16** *Do you have any specific suggestions on how the work of your Audit Committee could be improved?*

Response. Suggestions as with the responses to Question 15 emphasise the need for training of Committee members and the need for further materials to assist Councils and the Committees.

**Comments of respondents included –**

- ongoing training for Audit Committee members and also educating elected members and staff on objectives of the audit committee
- provision of regional based training and development would prove invaluable
- the makeup of the audit committee would be better served with 2 independents (1 presently) and 3 elected members
- increased training, further attention to risk management responsibilities
- I believe Audit Committees should be independent of Council just like DAP's
- the biggest issue that the Committee faces is achieving what needs to be done within the very limited resources it has available
- mandatory training should be provided by the LGA for Audit Committee Chairs and members
- more practical level of compliance for small rural Councils rather than one size fits all
- better qualified members.

## **4 Conclusions and Initial Recommendations for Focus Group Review**

The survey of Councils and the desk top evaluation indicated that some difficulties were experienced in establishing Audit Committees.

### **a. Establishment issues**

**Timing** – Councils took time to establish the Committees, determine their terms of membership and appoint or recruit appropriately qualified and experienced Independent Representatives or Councillors to serve on the Committee. As a consequence the full responsibilities of the Committees have been addressed mainly in the 2008/09 financial year. There are still requirements such as risk assessment, Section 130A reviews, internal audit, and in some cases input to strategic and annual business plans which need to be the subject of consideration in the current (2009/10) financial year and beyond. Emphasis on an “end point” whereby all Audit Committees have at least undertaken preliminary examination and reported to Council on all requirements covered by the legislation is important in terms of the credibility of the Committees. It is recommended that the :LGA assists Councils to meet the requirements of the legislation by 30 June, 2010 and identify any areas of concern in meeting this timeframe through the focus group workshop.

#### **Recommendation 1**

That the LGA support Councils to meet the requirements of the legislation by 30 June, 2010 and identify any areas of concern in meeting this timeframe.

## **b. Operational issues**

**Inadequate resourcing** – the respondents to the questionnaire have raised this issue not only in terms of establishment but also as a longer term issue. LGA papers, training sessions conducted by the LGA and focus point for Councils experiencing problems has been and continues to be an important issue in achieving consistent, timely and effective outcomes.

This is of particular relevance to Councils where as a consequence of their size they are unable to appoint staff fully trained or conversant with all the requirements of the legislation. Whilst they have available to them legal advisors and consultants those options can be expensive and are more likely to address single issue requirements.

Continuation of a process of information papers, focus groups for both Elected Members and Council Administrations is important in meeting reasonable standards of compliance and movement to best practice over time.

Emphasis could be given to these requirements as part of the development program for new Councils following the November elections.

### **Recommendation 2**

That the LGA with support from the Office for State/Local Government Relations continues to provide assistance by way of information papers, model policies and procedures to assist Councils in fully meeting the requirements of the legislation.

## **c. Effectiveness issues**

**Committee membership structures** – while the Audit Committee structures are varied and in part relate to the individual circumstances of Councils i.e their ability to attract appropriately skilled persons, there is quite strong comment regarding the desirability of a majority of Independent Members and Independent Chairs for Audit Committees. This is an issue which should be revisited at some juncture given the commitment of Councils to change and the evidence of much greater credibility and accountability of an independent committee. There seems an inherent weakness in the legislation and best practice where a Council Mayor or Chairperson, who has the responsibility to sign off on the financial statements of a Council, is also the Chair or a member of the Audit Committee in other than an ex-officio capacity.

This issue should be workshopped with Council administrations and Elected Councils and the Chairs of Audit Committees with a view to achieving a majority of independent members over a period of time as a “best practice” objective.

### **Recommendation 3**

That the LGA discuss with Councils the concept of “best practice for Audit Committees” comprising a majority of independent members.

That the issue of Independent Chairs be the subject of discussion at the forthcoming workshop for Audit Committee Chairs and subsequently consulted with Councils.

**Continuity of members of Audit Committees** - Councils will experience a change of elected representation at the general elections in 2010 and whilst appointments to Committees are the prerogative of the Council, a degree of continuity of membership of Audit Committees is considered desirable to ensure the progress made thus far is not lost. Towards that end the balance of independent membership and the duration of their appointments should be a matter of careful consideration by Councils.

#### **Recommendation 4**

In order to ensure continuity of membership that the independent appointments to the Audit Committee be for the same period as Council, i.e. 4 years, but not coincide with periodic Council elections.

#### **d. Other issues**

**Resource papers and model policies** - The respondents to the questionnaire have highlighted the importance of the LGA information papers developed for introduction of Audit Committee, development of work programs and review mechanisms undertaken by the Audit Committee.

It is considered unlikely that the progress evident in most Councils embracing Audit Committee requirements would have been achieved without that resource allocation and support from LGA staff.

#### **Recommendation 5**

That the process of developing resource papers for outstanding issues of Audit Committees be continued as a matter of urgency and those Councils identified as “best practice” be encouraged to make their policies, procedures and practices available to other Councils via the LGA website.

**Resourcing** - The issue of “resourcing of the work” of Audit Committees has been raised by many Councils irrespective of size and locality.

A high proportion of respondent Councils have identified that risk management, efficiency reviews and internal audit reviews remain outstanding issues for consideration of Audit Committees and anecdotal indications are they have not been fully addressed by Council’s administration.

To facilitate full implementation of Audit Committees’ responsibilities, guidance in the form of templates or resource papers is urgently needed in the before mentioned areas. The responsibility for this sits with Council’s administration it is apparent that further work is necessary in many Councils. The use of Financial Sustainability Information Papers 14 and 19 by Councils to service Audit Committees is important from 2 perspectives; namely consistency in approach to addressing the issues and efficiency in terms of not requiring Councils to constantly “reinvent the wheel”. It will also be of considerable benefit to smaller and/or country Councils where resources are at a premium and likely to be an impediment in them making further progress.

## **Recommendation 6**

That the Local Government Association in conjunction with the Office for State/Local Government Relations give consideration to provision of resources for regional groupings of Councils to:

- provide specialist advice from an approved pool of consultants or Council Officers
- assist regional focus groups to address particular issues e.g. risk management for coastal or remote Councils
- promote the use of “buddy systems” whereby Councils experiencing difficulties are linked to another Council with particular skills and experience in those areas

**Meeting frequency and cycles** - Meeting frequency is a matter best determined by individual Councils having regard to their progress; issues which remain outstanding and the capacity of Audit Committees to deal with those issues. Given there are finite resources to meet the financial and management requirements of Councils and it is often through staff who provide administrative and policy advice to the Audit Committees, a process of prioritization and workload planning is imperative.

The guidelines which require Councils to meet 4 times annually, with a likely meeting duration of say 2 hours it is unlikely to be sufficient for detailed consideration of strategic plans, annual business plans, financial statements, risk management and economy and efficiency reviews. There is evidence that those Councils presently compliant in these areas are moving or have already moved to bi-monthly or monthly meetings of 2-3 hours duration. The desk top examination also identified overlap with other Council committees, most notably Finance and Policy Committees and Councils may need assistance to resolve rationalization of Committees and structures with their Elected Council.

Given the acceptance of Audit Committees as a viable and independent review of Council finances, sustainability and governance, consideration should be given to encouraging bimonthly meetings of Audit Committees as a minimum and abolition of Committee structures which do not add value to the political or board of management process.

## **Recommendation 7**

The LGA explore the concept of model Committee structures to eliminate overlap between Audit Committees and Finance/Administration/Governance Committees and encourage Councils Audit Committees to meet on a bimonthly basis as a move towards “best practice”.

**Training and Development of Audit Committees and Council Staff** - While it is difficult to provide absolutely objective information on the extent of compliance with the legislation given that this study has been a self assessment process, anecdotal evidence suggests that one third of Councils will be compliant by completion of the present financial year’s statements and reporting process i.e. 2008/09. A further group of similar magnitude have made substantial progress and are likely to make further inroads in 2009/10. This however leaves a group of Councils that still have a substantial amount of work to undertake on issues such as internal audit, efficiency reviews, input into strategic and annual business plans. Consideration should be given to assist those Councils in meeting their obligations by onsite training on regional basis and provision of support services for their staffs

### **Recommendation 8**

That consideration be given to assisting Councils experiencing difficulty in meeting outstanding requirements of the legislation by immediate provision of targeted training programs and specialist assistance to staff of those Councils and facilitation of annual workshops for Audit Committee members.

In addition it would be of benefit to identify a number of “best practice” sites so Councils are experiencing difficulties in meeting the requirements able to benefit from the experiences and documentation of best practice Councils.

That the LGA continue the development and release of papers on –

- . Internal control principles and processes
- . Governance and Risk Management, and

That a training program be established for newly appointed Audit Committee Members and new Councillors following the November 2010 Council elections.

**Audit Committee Reporting** - Audit Committee minutes are required to be tabled to Council as Section 41 Committees after each meeting however the delays in the uptake of the new legislation highlights a necessity for routine collection of data on implementation and the program of work being undertaken by the Audit Committees. This could take the form of coverage of Audit Committee outcomes in each Council’s Annual Report; inclusion of comment in published financial statements or by a pro forma return made annually to the Office for State/Local Government Relations. Any or all of these processes will reinforce formal reporting by Council and highlight accountability aspects of the operation of the Audit Committee and Council.

### **Recommendation 9**

That the LGA consider development of a standard for Audit Committee reporting to be adopted by Councils for their Annual Reports.

That the form and regularity of reporting by Audit Committees be canvassed at the forthcoming workshop for Audit Committee Chairs and subsequently consulted with Councils.

**CEO Statement for Financial Statements** - While the emphasis of this review has focussed on Audit Committees, the responsibility for advice to Councils and implementation of their decisions rests with the Chief Executive Officer. To emphasise that role, consideration should be given to modification of the certificate given by the CEO in the annual financial statements to report on the long term financial sustainability of the Council.

If incorporated in the published financial statements of the Council it could be under a separate heading to deal with “sustainability”.

It is recommended that the Statement made by the Chief Executive Officer includes a declaration to the effect that Council financial statements, internal controls and policies have been presented and considered by Council’s Audit Committee in accordance with Section 126

of the Local Government Act and recommendations for action have been considered and resolved by Council.

This would form part of the published Financial Statements and thus be reported to the Minister, Parliament and be available to the public.

#### **Recommendation 10**

That the CEO be required to provide a declaration in the published financial statements that the Audit Committee has been provided with appropriate information for it to discharge its responsibilities under the Local Government Act, that the recommendations of the Audit Committee have been referred to Council for determination. Further that the Council is sustainable, able to meet its service levels in an efficient and effective manner.

#### **Review of LGA Sustainability Papers**

It has been 2 years since the introduction of the revised legislation for Councils to have in place effective Audit Committee plans and reviews. In light of the recent responses to LGA questionnaires to CEOs, External Auditors and Audit Committee Chairs it is an appropriate time for the LGA to revisit

- LGA Financial Sustainability Information Paper 3-Audit Committees
- LGA Financial Sustainability Information Paper 14-Model Work Program for Council Audit Committees
- LGA Financial Sustainability Information Paper 19-Audit Committee Reporting

With a view to amending those papers if necessary to reflect the experiences of Councils to date and inclusion of continuous improvement provisions.

#### **Recommendation 11**

That the LGA review LGA Financial Sustainability Information Papers 3, 14 and 19 and recommend to the LGA Executive changes that reflect the progress made by Councils and inclusion of continuous improvement provisions.

## **5 Audit Committee Chairs/Administration Staff Review of Draft Report**

#### **Focus Group Workshop**

A review group comprising 32 representatives attended on May 25<sup>th</sup> a focussed workshop on the findings of the consultant. The attendees were divided into five groups to consider their experiences in implementation and operation of the Committees under the following headings:

- What worked well with the introduction of Audit Committees
- What did not work so well
- Issues requiring attention to move forward

There were consistent themes presented by the spokesperson for each group during report back, with the most common issues being

- (1) What worked well?
  - Involvement of independent members and independent Chairs of Committees
  - The Committee provided a focus for
    - Internal audit process
    - External audit liaison
    - Increased use of financial indicators
    - Proper consideration of financial statements
  - Focus on asset management and financial sustainability
  - Improved risk evaluation and review mechanism for Council's longer term sustainability
  - Improved assessment of Council policies and practices including internal controls
  - Networking and information sharing including LGA resource papers
- (2) What did not work so well?
  - Audit Committee appeared to be introduced in a leadership vacuum without clear roles and responsibilities for the affected parties such as;
    - Elected Council
    - Staff
    - Audit Committee Members
  - The work by Audit Committees did not involve "all of Council"
  - Lack of resources by the Committee to undertake its role
  - Confusion regarding statutory reporting and reporting back to Council
  - Independent members difficult to source and sometimes costly
  - Lack of cultural change to recognise the role for Audit Committees
  - Lack of understanding of some members regarding the need for a focussed independent review of Council operations and financial statements
- (3) Issues to be addressed to move forward
  - Avoid double handling by Council Committees by clarification of roles and responsibilities
  - Share resources between Councils so as not to reinvent the wheel, particularly in areas of risk management and internal controls
  - Increase training for Audit Committee Members and staff particularly in rural and regional areas
  - Move beyond mere compliance with the legislation
  - Increase resource allocations for assistance in applying policies, procedures and model work programs

### **Review Group, Port Augusta**

Following a request, a second review of the report and recommendations was undertaken with 14 participants at Port Augusta Council.

The issues raised at this venue reflected those of the larger focus group in Adelaide but the following issues were strongly emphasised –

- Country Councils were not in favour of a majority of independent members as a consequence of:
  - High cost of qualified participants
  - Difficulty in coordinating meetings
  - Difficulties of sourcing appropriate persons to serve on Committees
- An urgent need for practical assistance (resourcing) on a regional basis to address issues such as –
  - Asset Management Plans
  - Long-Term Financial Plans
  - Internal audit procedures which are often provided through external auditors
  - Risk management
- Providing greater opportunity for establishment of Regional Audit Committees for rural Councils

### **Written Responses**

Councils were invited to comment on the Draft Report and six written responses received. The majority of responses generally supported the revised recommendations following focus group considerations but raised the following:

- That the LGA identify “best practice” procedures in Councils and take responsibility for providing those procedures/guidelines to Councils that request assistance
- Bimonthly meetings, majority of independent members and independent Chairs were not supported, particularly for rural and regional Councils

## **6 Final Recommendations of the Report**

In drafting the final recommendations to the LGA consideration has been given to –

- The responses to the questionnaires completed by Councils, Councils’ External Auditors and Audit Committee Chairs
- The focus group meetings held in Adelaide and Port Augusta
- Written responses received from Councils

### **Recommendation 1 Timing**

That the LGA continue to support Councils to fully address the requirements of the legislation, identifying areas of concern from groups of Councils particularly in rural/regional areas.

### **Recommendation 2 Ongoing resourcing**

That the LGA with support from the Office for State/Local Government Relations continues to provide assistance by way of information papers and model policies and procedures to assist Councils to fully address the requirements of the legislation.

### **Recommendation 3 Committee membership structures**

That the LGA supports the concept of “best practice” for Audit Committee membership being –

- Two Independent members

- The Chair of the Committee being either an independent member or an elected Member who is not the Principal Member of the Council

**Recommendation 4 Continuity of members of Audit Committees**

That appointments to the Audit Committees ideally should be structured in a fashion which provides continuity of core membership over the Council election process.

**Recommendation 5 Resource papers and model policies**

That the process of developing resource papers for outstanding issues of Audit Committees be continued and those Councils identified as “best practice” be encouraged to make their policies, procedures and practices available to other Councils.

**Recommendation 6 Resourcing**

That the Local Government Association in conjunction with the Office for State/Local Government Relations give urgent consideration to provision of resources for regional groupings of Councils to –

- Provide specialist advice from an approved pool of Consultants or Council Officers
- assist regional focus groups to address particular issues e.g. risk management, internal audits etc.

Further, that the LGA promote the use of “buddy systems” whereby Councils experiencing difficulties are linked to Councils with particular skills and experience.

**Recommendation 7 Meeting frequency and cycles**

That consideration be given in the Regulations of the Local Government Act to mandate Audit Committees meet at least four times annually.

**Recommendation 8 Training and Development of Audit Committees and Council Staff**

That consideration be given to assisting Councils experiencing difficulty in meeting outstanding requirements of the legislation by provision of targeted training programs and/or specialist assistance to staff and audit committees of those Councils.

That the LGA continue the development and release of papers on –

- . Internal control principles and processes
- . Governance and Risk Management, and
- . Sustainability

That a training program be established for newly appointed Audit Committee Members and new Councillors following the November 2010 Council elections.

**Recommendation 9 Audit Committee Reporting**

That the LGA consider development of a standard for Audit Committee reporting to be adopted by Councils in their Annual Reports.

**Recommendation 10 CEO Statement for Financial Statements**

That the CEO be required to provide a declaration in the published financial statements that the Audit Committee has been provided with appropriate information for it to discharge its

responsibilities under the Local Government Act, and that the recommendations of the Audit Committee have been referred to Council for determination. Further that the CEO is providing advice to Council to assist it to move towards being sustainable in a planned manner.

### **Recommendation 11 Review of LGA Financial Sustainability Papers**

That the LGA review LGA Financial Sustainability Information Papers 3, 14, 19 and 23 and recommend to the Executive changes that reflect the progress made to date by Councils and inclusion of “continuous improvement provisions”.

## **7 The Way Forward**

Data gathered from the Review has been beneficial in understanding in an objective manner the progress made thus far by Audit Committees.

### **Council opportunities for improvement**

While the progress of Councils generally has been satisfactory there are a number of initiatives that could be considered by Council in identification of “best practice” outcomes. They include:

- Continuous improvement programs for staff involved in the development of financial information for Council and Audit Committees
- Introduction of regular training programs undertaken by the LGA or an appropriate provider for –
  - Audit Committee Members
  - Council administrative staff, particularly in regional/rural Councils
- Consideration by Councils of an increase in the number of independent members on Audit Committees following the 2010 Council elections
- Reconsideration of the Committee structures of the Council with a view to increasing the frequency of Audit Committee meetings and the rationalisation of Committees which overlap its role
- Advertising more widely the role of the Audit Committee and ensuring that the records of meetings of the Committee are readily available for community scrutiny
- Council acknowledgement of Audit Committees as an appropriate and important innovation that encourages independent review of Council operations

### **Communication, Education and Consultation**

A majority of Councils appear to have used the information papers and training opportunities provided by the LGA and it is considered unlikely that progress made to date could have occurred without those resources.

There are a number of further initiatives which could assist Councils in addressing their responsibilities including –

- A website for regularly asked questions that can be accessed by Council staff

- Regular opportunities for Council staff to attend focus group meetings either centrally or on a regional basis and introduction of a “buddy system” for Councils experiencing ongoing difficulties in addressing the requirements of the legislation
- Continuation of release of information papers by the LGA to assist Councils in addressing the legislation
- Provision of resources from the reform fund towards self help workshops and assistance for Council staff in rural/regional areas

The upcoming Council elections present an opportunity for Councils to emphasise the progress made in appointing Audit Committees and the role the Committees have in ensuring that the Councils are sustainable and accountable to their communities.

### **Legislative considerations**

There have been some shortcomings identified by Council administrations and External Auditors which may require clarification of the legislative framework.

The main areas of comment relate to –

- The limited number of independent members of Committees
- Conflict of role where the Chair of the Committee is also the Mayor or Chairperson of the Council
- Minimum meeting frequency for Audit Committees
- The lack of a timeframe for Councils to fully address the requirements of the legislation

However given the progress of Councils thus far, the timeframe for changes to regulation and continued efforts by the LGA encouraging a continuous improvement model these issues are likely to be effectively addressed through the efflux of time. This review and the supporting spreadsheets should provide a base for future self assessment of progress and could be used as an ongoing benchmark or measure of improvement.

## Local Government Association of South Australia

### Audit Committees – December 2008 Survey

- Most Audit Committees comprise 5 members (33 Councils) with a further 19 Council Audit Committees comprising 4 members and 13 Council Audit Committees comprising 3 members while 3 Council Audit Committees comprise 6 members;
- One of the 5 member Audit Committees has 1 Council Member and 4 independent members, eleven have 2 Council Members and 3 independent members, twelve have 3 Council Members and 2 independent members while nine of the 5 member Audit Committees have 4 Council Members and 1 independent member;
- One of the 4 member Audit Committees has 1 Council Member and 3 independent members, five have 2 Council Members and 2 independent members while thirteen of the 4 member Audit Committees have 3 Council Members and 1 independent member;
- Two of the 3 member Audit Committees have 1 Council Member and 2 independent members while eleven have 2 Council Members and 1 independent member;
- The three 6 member Audit Committees have 4 Council Members and 2 independent members;
- 40 Audit Committees include the Council Mayor/Chairperson as a member, while 26 Audit Committees include the Deputy Mayor/Chairperson as a member;
- No Audit Committees have a Council Member of another Council as an independent member, while 13 Audit Committees include officers of other Councils as independent members;
- For 31 Audit Committees the Presiding Member is an independent person, for 18 Audit Committees the Presiding Member is the Mayor or Chairperson of Council, for 3 Audit Committees the Presiding Member is the Deputy Mayor or Chairperson while for 16 Audit Committees the Presiding Member is a Council Member;
- For 3 Audit Committees the Deputy Presiding Member is an independent person, for 1 Audit Committee the Deputy Presiding Member is the Deputy Mayor or Chairperson, for 3 Audit Committees the Deputy Presiding Member is a Council Member while for 61 Audit Committees a Deputy Presiding Member is not appointed;
- For the large majority of Audit Committees (49) any remuneration paid is done so on a per meeting basis.

- For 13 of these 49 Audit Committees the Presiding Member is paid \$500 or more per meeting, for 3 Audit committees this remuneration is \$400 to \$500, for 6 Audit Committees \$300 to \$400, for 2 Audit Committees \$200 to \$300, for 3 Audit Committees \$100 to \$200 and for 22 Audit Committees the Presiding Member is given no remuneration;
- For 8 of these 49 Audit Committees the Independent Members are paid \$500 or more per meeting, for 2 Audit Committees this remuneration is \$400 to \$500, for 10 Audit Committees \$300 to \$400, for 9 Audit Committees \$200 to \$300, for 7 Audit Committees \$100 to \$200, for 3 Audit Committees less than \$100 and for 10 Audit Committees the Independent Members are given no remuneration;
- For 1 of these 49 Audit Committees the Council Member (from the Audit Committee's own Council) is paid \$300 to \$400 per meeting, for 2 Audit Committees \$100 to \$200 and for 46 Audit Committees the Council Members (from the Audit Committee's own Council) are given no remuneration;
- For 1 Audit Committee the Deputy Presiding Member is paid \$300 to \$400 per meeting, for 6 Audit Committee's the Deputy Presiding Member is given no remuneration while 61 Audit Committees have not appointed a Deputy Presiding Member.