



**Local Excellence**

Councils Working Together for Communities

*Financial Sustainability*

# Information Paper 3

## **Audit Committees**

Revised January 2012



## Introduction

This Information Paper is one of a series of Information Papers about Financial Sustainability and Financial Governance in Local Government.

The series of Information Papers was originally published in 2006 to 2011 as part of the Financial Sustainability Program. The history of that program and a complete list of Information Papers and other resources, including a glossary of terms and abbreviations, is provided on the LGA's "Financial Sustainability" web page: <http://www.lga.sa.gov.au/goto/fsp>.

The entire series of Papers was revised in early 2012 to take account of legislative changes and other developments. These Papers are addressed to, and written primarily for the benefit of Council Members and staff, but they are also available as a resource for the general public and students of Local Government.

This Information Paper combines what were previously published as three separate Information Papers:

- No 3 - *Audit Committees*
- No 14 – *Model Work Program for Council Audit Committees*
- No. 19 – *Audit Committee Reporting*

The previous Information Papers No. 14 and No. 19 have been discontinued and their contents merged into this revised Information Paper. This Paper should be read in conjunction with all the other existing Information Papers, but especially No. 23 – *Financial Governance*; and No. 2 – *An Overview of Audit Mechanisms* at <http://www.lga.sa.gov.au/goto/fsp>.

## Overview

An Audit Committee provides an important independent role between a Council and its management and between a Council and its community.

One of the primary roles of these Committees is to provide suggestions and recommendations to Councils and/or management, about actions to be taken to enhance financial governance, considered to be in the best interests of local communities.

An Audit Committee plays a critical role in the financial reporting framework of a Council, by overseeing and monitoring the participation of management and external auditors in the financial reporting process. An Audit Committee also addresses issues such as the approach being adopted by Councils and management to address business risks, corporate and financial governance responsibilities and legal compliance. Councils may also refer issues of a strategic nature to their Audit Committees.

However, the existence of an Audit Committee is only one step in a Council's approach to best practice financial governance and financial sustainability.

## 2009 Review of operations

In 2009 the LGA undertook a review of Audit Committee operation. Information was collected from Council CEOs, Audit Committee Chairs, External Auditors and Council websites. The resulting report included 11 recommendations aimed at good practice operation of Council Audit Committees. The report was considered by the LGA's [October 2010 Annual General Meeting](#) and the 11 recommendations endorsed for adoption by the sector. This information paper includes a number of the good practice recommendations for Audit Committee operations endorsed at the [2010 AGM](#) (shown in italicised text).

The LGA Information Papers have been complemented by training programs and practitioner workshops for Audit Committee Members and senior Council staff.

## Similarity with other Council Committees

The [Local Government Act 1999](#) ("the Act") at section 126, requires each Council to have an Audit Committee. However they are actually established under Section 41 of [the Act](#) just like any other Committees of Councils. Audit Committees have no authority to act independently of Councils and can only act in areas covered by their terms of reference.

The establishment of an Audit Committee must occur on a Council by Council basis because there is no statutory power for a number of Councils to come together to establish a regional Audit Committee to perform the functions of the Audit Committee collectively for those Councils. A number of Councils may agree to appoint the same persons to their Audit Committees and their Audit Committees may meet on the same day (and possibly in the same place). Careful consideration must be given to Audit Committees meeting other than within the boundaries of the Council which establishes them, because their meetings must be open to the public, except in circumstances provided for under [the Act](#). Audit Committees are individual Council Committees and have direct accountability and responsibilities to their establishing Councils.

In most respects, Audit Committees are like other Council Committees and are subject to the requirements of [the Act](#) at Section 41 (for example, reporting and accountability, appointment of the Presiding Member), the duties at Section 62 and the obligations of Sections 73 and 74, which apply to its Members. Further, consideration needs to be given to the application (or not) of Part 2 of the [Local Government \(Procedures at Meetings\) Regulations 2000](#) and whether it is appropriate to determine discretionary meeting procedures given the nature and functions of Audit Committees.

## Committee Membership

To gain the most benefit from having an Audit Committee, it is important that a Council appoints properly skilled people who have experience in audit practices and understand the business of the Council.

[The Act](#) and the [Local Government \(Financial Management\) Regulations 2011](#) together require that an Audit Committee:

- must have between 3 and 5 members (inclusive); and
- 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
- may include persons who are not members of the Council;

- may include members of an Audit Committee of another Council (this means that the entire Audit Committee may in fact be comprised of the same members as the Audit Committee of another Council); and
- must not include, as a member, any employee of the Council (although staff members typically would be present at meetings and provide services to an Audit Committee);
- must not include, as a member, the council's auditor

The 2009 LGA Review of Audit Committee Operations identified a strong view among Councils that Audit Committees should have more than the required minimum of one independent member with relevant skills/experience. At the [2010 AGM](#) Councils endorsed best practice Audit Committees as having two independent members regardless of whether the Committee has three, four or five members.

The 2009 review also considered the separation of the roles of the Principal Member of Council, who in conjunction with the Chief Executive certifies a Council's Financial Statements, and the Audit Committee Chairperson to be an important transparency consideration. While the decision in respect to Audit Committee appointments rests with the elected Council careful consideration should be given to separation of these roles.

*AGM endorsed Recommendation 3 - Committee membership and 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*

The composition of the Audit Committee should be such that the Committee's operation is independent of the Local Government election cycle. This can be achieved by appointing the independent members for different timeframes such that at least one independent member continues to operate with the new Audit Committee formed following a general election.

*AGM endorsed Recommendation 4 - Continuity of members of Audit Committees:*

*That appointments to the Audit Committee of Council ideally should be structured in a fashion which provides some continuity of membership during the periodic Council election process.*

## **Terms of Reference**

As referred to above, the provisions of [the Act](#) and the [Local Government \(Procedures at Meetings\) Regulations 2000](#) that apply to any Council Section 41 Committee have equal application to Audit Committees. Consequently, issues such as notification of meetings to the members of the Committee and to the public, the calling of special meetings, the keeping and distribution of minutes, the use of the confidentiality provisions at Sections 90 and 91 of [the Act](#), and the application of [regulated meeting procedures](#) all need to be considered and determined in establishing Audit Committees. Probably the most fundamental point to be aware of in this regard is that an Audit Committee is not exempt from the obligation to conduct its meetings in public.

Terms of reference should be prepared for Audit Committees and should not only meet minimum requirements but should be tailored to the specific needs and circumstances of individual Councils.

Included as Attachment 1 to this paper are proposed model terms of reference for an Audit Committee. These are provided to assist Councils in formulating their own terms of

reference for their own Committees. The model is intended to not only meet the requirements of [the Act](#) but to also embody examples of good practice for the operation of Audit Committees. The model must be adapted to suit individual Councils' requirements.

## Work Program

The principal functions and extent of authority for an Audit Committee are set out in Section 126 of [the Act](#). In summary the minimum statutory functions of an Audit Committee include:

- reviewing annual financial statements to ensure that they fairly present the state of affairs of a Council;
- proposing, and contributing relevant information to, a review of a Council's strategic management plan<sup>1</sup> or annual business plan;
- proposing and reviewing the exercise of powers in relation to "other investigations" as specified under section 130A of [the Act](#) (e.g. the conduct of efficiency and economy audits<sup>2</sup>);
- undertaking the functions that would have been undertaken by a (single Council) subsidiary's Audit Committee in cases where the Council has exempted the subsidiary from having an Audit Committee. (Note that this function has no application to a regional subsidiary.);
- liaising with the Council's auditors; and
- reviewing the adequacy of the Council's accounting, internal control, reporting and other financial management systems and practices on a regular basis.

Audit Committees should develop a work program, in consultation with the Council and its chief executive officer. The work program should address issues which fall within the activity areas determined by the Audit Committee's terms of reference. Some issues may be addressed on a once-off basis and others on a regular basis.

Prior to developing its work program the Audit Committee should receive a sound induction. This should include ensuring that all members clearly understand the Audit Committee's terms of reference charter and the relationship with other relevant Committees of Council. The Audit Committee should also be given a briefing on the Council's suite of strategic management plans (SMPs), annual business plan (ABP) and operating environment. This should include a clear understanding of the financial performance and position of the Council, with an emphasis on the Council's endorsed targets covering key financial indicators.<sup>3</sup> Data from the Council's long-term financial plan (LTFP)<sup>4</sup> should also be provided for the projected future.

If a Council has a Finance Committee (in addition to an Audit Committee) then the respective roles of the two Committees need to be clear and understood by the membership of each to ensure they compliment each other and that all required activities are undertaken without duplication or confusion. For example will the Finance Committee focus on monitoring Council's financial activities or pro-actively and strategically drive the Council's achievement

---

<sup>1</sup> This would include a Council's long-term financial plan, and infrastructure and asset management plan, which s122 (1a) provides are both part of a Council's suite of strategic management plans.

<sup>2</sup> See Financial Sustainability Information Paper No. 5: *Efficiency and Economy Audits* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

<sup>3</sup> See LGA Financial Sustainability Information Paper No. 9: *Local Government Financial Indicators* at <http://www.lga.sa.gov.au/goto/fsp>.

<sup>4</sup> See LGA Financial Sustainability Information Paper No. 8: *Long-Term Financial Plans* at <http://www.lga.sa.gov.au/goto/fsp>.

of targets established for key financial indicators?<sup>5</sup> If the Finance Committee's focus is the latter, then the Audit Committee's focus will be more one of commenting on the Finance Committee's proposals and achievements rather than driving such a program itself.

This paper includes, as Attachment 2, a Model Work Program for a Council's Audit Committee. This model work program is intended to provide general guidance only. The suggested list of activities is comprehensive and should be modified to take account of local circumstances, including both resource availability and specific local needs to ensure the work of the Audit Committee adds value relative to costs. The model work program identifies likely areas of focus for the Audit Committee.

It is not suggested that the model work program would be achieved in a specific time period e.g. in a single year. All Councils are different and the rate at which their Audit Committees address the issues identified will differ. Rather the model work program presents guidance for a starting point for an Audit Committee and subsequently should be reviewed and updated at least annually taking account of achievements and developments.

### **Meeting schedule**

The development of comprehensive work programs for Audit Committees and their review on a regular basis, ideally at each meeting, has resulted in many Audit Committees meeting consistently at least four times per year. The work program structure is tending to require meetings being held at critical times of the year to consider the major aspects of the fiscal cycle.

The Review of Audit Committee Operations made several recommendations in relation to an Audit Committee's Terms of Reference.

*AGM endorsed 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.*

### **Resourcing**

An Audit Committee's operation and work program is resourced by Council and needs to be budgeted accordingly. The Council Chief Executive Officer is responsible for ensuring that sufficient resources are made available to the Committee to discharge its legislated responsibilities, its terms of reference and the approved work program of the Committee. The consultation between the Audit Committee and Council and its Chief Executive should balance the needs identified in the work program against the level of resources required.

*AGM endorsed 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.*

Regional Councils (in particular) report difficulties resourcing their Audit Committees. The cost of servicing the Committee impacts disproportionately on smaller Councils and regional

---

<sup>5</sup> See Financial Sustainability Information Paper No. 9: *Financial Indicators* at [www.lga.sa.gov.au/goto/fsp](http://www.lga.sa.gov.au/goto/fsp)

Councils have, in some cases, found it difficult to attract suitably qualified independent members and other resources to address particular issues identified by the Audit Committees. Collaboration between groupings of Councils is seen as a possible solution to facilitating access to suitably qualified resources by regional Councils, as is the use of tele-conferencing facilities in holding meetings.

*AGM endorsed 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.*

## **Reporting responsibilities**

### *a) Regular Reporting to Council*

The Audit Committee should formally report to the Council at the Council meeting following each Audit Committee meeting, providing a summary of its work and outcomes.

The report should typically comprise the Audit Committee's minutes (including details of members present) but may also include, where relevant:

- comments and specific advice/recommendations on significant and urgent matters that, in the Audit Committee's view, need to be drawn to the attention of the Council;
- advice on activities to be reviewed/discussed at forthcoming meetings which the Audit Committee wishes to draw to the attention of Council; and,
- other matters the Audit Committee believes need to be reported to the Council.

In addition to the provision of a regular report, the Audit Committee Chair may seek the opportunity to address a meeting of Council to highlight important issues and answer questions on the operation of the Committee.

### *b) Annual Reporting to Council*

The Audit Committee should provide an annual report to the Council. The annual report should include, where appropriate, its comments on:

- any areas of accounting treatment that are open to discretion and in particular have material impact on reported financial performance or position of the Council;
- the veracity of financial information included in publications for external audiences;
- the adequacy of asset values and depreciation methodology;
- the adequacy of strategies to minimise the likelihood of occurrence and adverse consequence for obvious and major internal and other risks;
- the adequacy of arrangements for employees to confidentially raise concerns of alleged malpractice in accord with legislative provisions;
- the effectiveness of the internal audit function, where this exists (in particular, the adequacy of the internal audit function for managing the risks to which the Council's operations are exposed);
- the arrangements in place for initiating and undertaking efficiency and economy audits;
- the conformity of the appointment arrangements of the external auditor with legislative provisions; and,
- its monitoring of progress in response to its previous recommendations regarding areas requiring improvement (including matters raised by the Council's external auditor).

The annual report to Council should include a review of the Audit Committee's terms of reference. It should also identify training needs for its members, include any recommended changes to its operation that it considers necessary to improve its efficiency and effectiveness and set out its work program for the forthcoming twelve months.

In the process of preparing its annual report to Council the Audit Committee ideally should also undertake a self-assessment of its performance over the previous twelve months. The self-assessment should be prepared following consultation with all Audit Committee members and include:

- its understanding of its role and responsibilities;
- its membership e.g. the balance of independent and Council members;
- the conduct of its meetings including frequency, length and attendance;
- the objectivity and independence of its operations over the relevant period;
- the adequacy of the resources available to it;
- the relevance and clarity of its work program for the relevant period;
- the outcomes achieved in its work program;
- its effectiveness in providing advice and recommendations to Council and/or management about actions to be taken to enhance financial governance;
- the activities undertaken and their relevance to its terms of reference.

Audit Committees should also take advantage of opportunities to benchmark their activities and performance with those of Audit Committees in similar Councils.

This paper includes, at Attachment 3, a Model Audit Committee Annual Report to Council, designed to include the results of the Audit Committee's self-assessment performance review.

*AGM endorsed 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.*

## **Audit Committees of Subsidiaries**

### *a) Single-Council subsidiaries*

A subsidiary established by a single council under section 42 of [the Act](#) may have its own Audit Committee. Alternatively, a Council may choose to exempt its subsidiary from the obligation to have an Audit Committee. If that is the case, then the Council's own Audit Committee is required to undertake the functions of an Audit Committee for the subsidiary.

The effect of this provision is that the operations of a single Council subsidiary will either be subject to its own Audit Committee or to the Council's Audit Committee.

### *b) Regional subsidiaries, established by two or more councils.'*

In the case of regional subsidiaries established by two or more Councils (under Section 43 of [the Act](#)) the individual Audit Committees of the constituent Councils have no functional role in relation to their regional subsidiary. A regional subsidiary is required by [the Act](#) (Schedule 2, clause 30(2)) to establish its own Audit Committee, unless it is exempted from this requirement by the Minister.<sup>6</sup>

---

<sup>6</sup> The [Local Government \(Financial Management\) Regulations 2011](#), regulation 18, provides that the Minister may publish an exemption in the [Government Gazette](#).

## **What are the issues for Councils?**

Each Council must have an Audit Committee, with membership and terms of reference that meet the requirements of [the Act](#).

The prime matters for Councils to focus upon in this area are:

- to ensure that the strategic financial direction of the Council supports long-term financial sustainability; and
- that their internal controls are kept under review and are appropriate to address risks exposures; as well as
- providing a reasonable assurance that the Council's financial records are accurate and reliable.

Audit Committees play a valuable role in facilitating the two way communication between Councils and their independent external auditors, resulting in more reliable financial reporting, accountability, transparency and good governance.

The Audit Committee should maintain good communication with the Council management so that it can both receive and provide information relevant to the performance of its role. It must be able to formally present its independent assessments, comments and views to Council and management through clearly established channels to ensure that issues raised receive appropriate consideration and action.

The key channel of communication is via the Audit Committee's regular reports and its annual report to Council. Through these reports the Audit Committee should provide an update on its activities and specific advice on matters requiring attention. The Audit Committee's annual report should also provide a review of its own operation.

## **Acknowledgements**

The contributions of:

- Mr [Allen Bolaffi](#) of [UHY Haines Norton](#);
- John Comrie of [JAC Comrie Pty Ltd](#); and
- Paul Newman of Paul Newman & Associates

in the preparation of this paper are acknowledged.

This project has been assisted by the [Local Government Research and Development Scheme](#).

## Attachment 1: Model Terms of Reference for an Audit Committee

Set out in italics (below) are recommendations regarding the direction a Council may wish to take in relation to its Audit Committee. These are areas for which specific consideration will need to be given prior to the adoption of the terms of reference for its Committee.

### 1 Membership

- 1.1 Members of the Committee are appointed by the Council. The Committee shall consist of *{at least one independent member with at least one additional member from the Elected Members of Council – consistent with any Regulations}*. The minimum size of the Committee shall be *{three}* members.

[Note that Section 126(2) of [the Act](#) provides that an Audit Committee may include persons who are not members of Council.]

- 1.2 Independent member(s) of the Committee shall have *{recent and relevant financial, risk management, internal audit etc}* experience.

[Note that a person would not be considered independent if he or she was an Elected Member of that Council. Subject to any codes of conduct adopted by Councils, this does not preclude an Elected Member or an employee of a Council from being a member of an Audit Committee of another Council.]

- 1.3 Only members of the Committee are entitled to vote in Committee meetings. Unless otherwise required (by the conflict of interest provisions in [the Act](#)) not to vote, each member must vote on every matter that is before the Committee for decision. However other individuals *{such as the Chief Executive Officer, Finance Manager and if applicable the heads of risk, compliance and internal audit and representatives from the finance function}* normally would attend any meeting as observers and/or be responsible for preparing papers for the Committee. In accordance with the principles of open, transparent and informed decision making, Committee meetings must be conducted in a place open to the public. The agenda and minutes of the Committee meetings, subject to any items that are discussed in confidence under Section 90 of [the Act](#) and subsequently retained as confidential under Section 91 of [the Act](#), are also required to be made available to the public.

- 1.4 *{Council's external auditors and internal auditors}* may be invited to attend meetings of the Committee.

- 1.5 Appointments to the Committee from among the Elected Members of Council shall be for a period of *{up to four years, or until the end of the term of the Council}*. Independent member(s) of the Committee shall be appointed for a period of *{up to four years, commencing part-way through an election cycle, so that their terms overlap each Council election and provide some continuity}*. Appointees may be reappointed by Council.

- 1.6 The Council shall appoint the Presiding Member of the Committee.

[Note that an Elected Member of Council may be the Presiding Member of the Committee or an independent person may take this role. It is inadvisable for the Principal Member of the Council to take this role.]

## 2 Secretarial resources

- 2.1 *{The Chief Executive Officer shall provide sufficient administrative resources to the Committee to enable it to adequately carry out its functions}.*

## 3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be *{50% of the number of members of the Committee plus one or a specified number}*. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## 4 Frequency of meetings

- 4.1 The Committee shall meet *{at least four times a year at appropriate times in the reporting and audit cycle}* and otherwise as required.

## 5 Notice of meetings

- 5.1 Ordinary meetings of the Committee will be held at times and places determined by Council or, subject to a decision of Council, the Committee. A special meeting of the Committee may be called in accordance with [the Act](#).
- 5.2 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and observers, no later than 3 clear days before the date of the meeting. Supporting papers shall be sent to Committee members (and to other attendees as appropriate) at the same time.

## 6 Minutes of meetings

- 6.1 The Chief Executive Officer shall ensure that the proceedings and resolutions of all meetings of the Committee, *{including recording the names of those present and in attendance}* are minuted and that the minutes otherwise comply with the requirements of the [Local Government \(Procedures at Meetings\) Regulations 2000](#).
- 6.2 Minutes of Committee meetings shall be circulated within five days after a meeting to all members of the Committee and to all members of the Council and will (as appropriate) be available to the public.

## 7 Role of the Committee

### 7.1 Financial reporting

- 7.1.1 *{The Committee shall monitor the integrity of the financial statements of the Council, including its annual report, reviewing significant financial reporting issues and judgements which they contain.}*

- 7.1.2 *{The Committee shall review and challenge where necessary:}*

- 7.1.2.1 *{the consistency of, and/or any changes to, accounting policies;}*

7.1.2.2 *{the methods used to account for significant or unusual transactions where different approaches are possible;}*

7.1.2.3 *{whether the Council has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;}*

7.1.2.4 *{the clarity of disclosure in the Council's financial reports and the context in which statements are made;}* and

7.1.2.5 *{all material information presented with the financial statements}*

## **7.2 Internal controls and risk management systems**

The Committee shall:

7.2.1 *{keep under review the effectiveness of the Council's internal controls and risk management systems;}* and

7.2.2 *{review and recommend the approval, where appropriate, of any material to be included in the annual report concerning internal controls and risk management.}*

[Note that it is important that the Audit Committee understands the business of the Council to appreciate the risks it manages on a daily basis, and to ensure that there are appropriate management plans to manage and mitigate those risks. This will include insurance matters, financial reporting, legal and regulatory compliance, business continuity, and statutory compliance. This can be facilitated by discussions with the internal and external auditors and by presentations by management on how business risks are identified and managed.]

## **7.3 Whistle blowing**

*{The Committee shall review the Council's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial recording or reporting or other matters. The Committee shall ensure these arrangements allow independent investigation of such matters and appropriate follow-up action.}*

## **7.4 Internal audit (if applicable, where a Council has a separate internal audit function)**

The Committee shall:

7.4.1 *{monitor and review the effectiveness of the Council's internal audit function in the context of the Council's overall risk management system;}*

7.4.2 *{consider and make recommendation on the program of the internal audit function and the adequacy of its resources and access to information to enable it to perform its function effectively and in accordance with the relevant professional standards.}*

[Note that this may include the review of the areas that have been identified for review and the frequency of review. The Committee should also monitor

whether the function of internal audit has adequate standing and is free from management or other restrictions. Whilst internal audit focuses on a Council's systems and procedures, it is important that the internal auditor retains her or his independence and is not subject to any influence from management or Council that impedes her/his ability to report objectively.]

7.4.3 *{review all reports on the Council's operations from the internal auditors;}*

[Note that the reports to the Audit Committee need not be the detailed reports that are presented to management for their review. Ordinarily a high level review report is all that is required detailing the work undertaken, the findings and management response.]

7.4.4 *{review and monitor management's responsiveness to the findings and recommendations of the internal auditor;}* and

7.4.5 *{where appropriate, meet the "head" of internal audit (internal or outsourced) at least once a year, without management being present, to discuss any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Principal Member of the Council and to the Presiding Member of the Committee}.*

## **7.5 External audit**

The Committee shall:

7.5.1 *{develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter};*

7.5.2 consider and make recommendations to the Council, in relation to the appointment, re-appointment and removal of the Council's external auditor. *{The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required};*

7.5.3 *{oversee Council's relationship with the external auditor including, but not limited to:*

7.5.3.1 *recommending the approval of the external auditor's remuneration, covering fees for both audit or non-audit services, and recommending whether the level of fees is appropriate to enable an adequate audit to be conducted;*

7.5.3.2 *recommending the approval of the external auditor's terms of engagement, including any engagement letter issued at the commencement of each audit and the scope of the audit;*

7.5.3.3 *assessing the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the extent of Council's relationship with the auditor, including the provision of any non-audit services;*

- 7.5.3.4 *satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Council (other than in the ordinary course of business);*
- 7.5.3.5 *monitoring the external auditor's compliance with legislative requirements on the rotation of audit partners; and*
- 7.5.3.6 *assessing the external auditor's qualifications, expertise and resources and the effectiveness of the audit process (which shall include a report from the external auditor on the Audit Committee's own internal quality procedures)};*
- 7.5.4 {meet as needed with the external auditor. The Committee shall meet the external auditor at least once a year, without management being present; to discuss the external auditor's report and any issues arising from the audit};
- 7.5.5 {review and make recommendations on the annual audit plan, and in particular its consistency with the scope of the external audit engagement};
- 7.5.6 {review the findings of the audit with the external auditor. This shall include, but not be limited to, the following;
  - 7.5.6.1 a discussion of any major issues which arose during the external audit;
  - 7.5.6.2 any accounting and audit judgements; and
  - 7.5.6.3 levels of errors identified during the external audit.
- 7.5.7 {*review the effectiveness of the external audit*}
- 7.5.8 {*review any representation letter(s) requested by the external auditor before they are signed by management*};

[Note that these representation letters are a standard practice of any audit and provide the auditor confirmation from management, (in particular the Chief Financial Officer) that, amongst other matters, accounting standards have been consistently applied, that all matters that need to be disclosed have been so disclosed and that the valuation of assets has been consistently applied.];
- 7.5.9 {*review the subsequent audit management letter from the external auditor and management's proposed response, by the Council, to the external auditor's findings and recommendations in that audit management letter*}.

## **8 Reporting responsibilities**

- 8.1 {*The Committee shall make whatever recommendations to the Council it deems appropriate on any area within its terms of reference where in its view action or improvement is needed.*}

## **9 Other matters**

The Committee shall:

- 9.1 {*have access to reasonable resources in order to carry out its duties*};

[Note that this is subject to any budget allocation being approved by Council];

- 9.2 *{be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members};*
- 9.3 give due consideration to [the Act](#); and [regulations](#) made under [the Act](#);
- 9.4 *{make recommendations on co-ordination of the internal and external auditors};*
- 9.5 *{oversee any investigation of activities which are within its terms of reference}; and*
- 9.6 *{oversee action to follow up on matters raised by the external auditors};*
- 9.7 *{at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval}.*

## Attachment 2: Model Work Program for a Council's Audit Committee

*[Italicised notes and comments enclosed in square brackets '[ ]' have been included to assist Councils' interpretation and use of the model initial work program. These notes should be deleted as the work plan is prepared.]*

### **[City of xxx / xxx District Council] Audit Committee Work Program [201x-1x]** **Updated [dd Month 201x]**

<b>Activity</b>	<b>Timeframe</b> <i>[Record start &amp; end month.]</i>	<b>Current Status / Outcomes / Benefits Achieved</b> <i>[Update for each meeting.]</i>	<b>Date Completed</b> <i>month.]</i>	<b>Follow-up Action</b> <i>[Identify activities to be added to subsequent work program.]</i>
<b>1 Financial Reporting</b>				
1.1 Identify areas of accounting treatment that are open to discretion, and in particular have material impact on reported financial performance and position (e.g. assumed asset lives, depreciation methodology, asset revaluation frequency and techniques, capitalisation policies and overhead accounting treatments: all can have material affect on the operating result and net asset values).		<i>[Include details of any relevant outputs generated as a result of this activity.]</i>		<i>[Include details of any recommended reviews.]</i>
1.2 Ensure that financial information included in publications for external audiences (e.g. annual report, Council newspaper, brochure to all ratepayers etc) accurately reflects key accrual based financial information and where appropriate sector-endorsed financial indicators.		<i>[Include details of review of Council's targets for these financial indicators.]</i>		<i>[Ongoing monitoring of performance against targets for these financial indicators.]</i>

<b>Activity</b>	<b>Timeframe</b> <i>[Record start &amp; end month.]</i>	<b>Current Status / Outcomes / Benefits Achieved</b> <i>[Update for each meeting.]</i>	<b>Date Completed</b> <i>[month.]</i>	<b>Follow-up Action</b> <i>[Identify activities to be added to subsequent work program.]</i>
1.3 Ensure that asset values and depreciation rates are up to date and soundly based, including that they have particular regard to local conditions and do not just reflect common practice elsewhere e.g. <ul style="list-style-type: none"> <li>• whether land values reflect the current local market;</li> <li>• whether infrastructure asset values reflect local replacement costs and the condition of existing assets;</li> <li>• whether an infrastructure asset condition audit has been undertaken recently to assist in making this judgement.</li> </ul>				
<b>2 Internal controls and risk management systems</b>				
2.1 Identify whether weaknesses in internal controls have been previously identified, e.g. by management or Council's external auditor, and if so whether action has been taken to have them addressed.		<i>[Include details of recommended remedial activity.]</i>		<i>[Review progress in addressing weaknesses.]</i>

<b>Activity</b>	<b>Timeframe</b> <i>[Record start &amp; end month.]</i>	<b>Current Status / Outcomes / Benefits Achieved</b> <i>[Update for each meeting.]</i>	<b>Date Completed</b> <i>[month.]</i>	<b>Follow-up Action</b> <i>[Identify activities to be added to subsequent work program.]</i>
<p>2.2 Establish whether locally appropriate strategies exist to minimise the likelihood of occurrence and adverse consequence for obvious and major internal control and other risks e.g:</p> <ul style="list-style-type: none"> <li>• consider the range of documented internal control policies and procedures;</li> <li>• whether they are being followed;</li> <li>• whether an assessment has been undertaken to identify foreseeable events with potentially catastrophic consequences and actions established to minimise their likelihood and effect e.g.               <ul style="list-style-type: none"> <li>○ whether a business continuity plan has been developed in case of major damage to key Council properties or other, e.g. computer assets;</li> <li>○ whether there are significant risks identified by Council's insurers that have not been reasonably addressed and therefore could jeopardise insurance cover in this regard.</li> </ul> </li> </ul>		<p><i>[Include details of</i></p> <ul style="list-style-type: none"> <li>• <i>documented internal control policies and procedures examined;</i></li> <li>• <i>recommendations arising.]</i></li> </ul>		<p><i>[Review progress in addressing recommendations made.]</i></p>

Activity	Timeframe <i>[Record start &amp; end month.]</i>	Current Status / Outcomes / Benefits Achieved <i>[Update for each meeting.]</i>	Date Completed <i>month.]</i>	Follow-up Action <i>[Identify activities to be added to subsequent work program.]</i>
2.3 Ensure a thorough review is undertaken to identify locally appropriate internal control and risk management policies and procedures using formal tools and processes such as the <a href="#">Internal Financial Controls – Best Practice Manual, 2002</a> (produced by the <a href="#">SA Local Government Financial Management Group</a> , with funding from the <a href="#">LG Research &amp; Development Scheme</a> ) and/or other locally appropriate reference tools. Ensure that identified improvement opportunities can be appropriately addressed. <i>[Note – this could be undertaken progressively in stages with the locally most important and highest risk areas tackled first.]</i>		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>
<b>3 Whistle blowing</b>				
3.1 Identify whether the Council has in place simple, readily accessible arrangements for employees to confidentially raise concerns of alleged malpractice in accord with legislative provisions.		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>
3.2 Examine whether Council's whistleblower arrangements are well known to employees and effective having regard to local circumstances.		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>

Activity	Timeframe <i>[Record start &amp; end month.]</i>	Current Status / Outcomes / Benefits Achieved <i>[Update for each meeting.]</i>	Date Completed <i>[month.]</i>	Follow-up Action <i>[Identify activities to be added to subsequent work program.]</i>
<b>4 Internal audit</b>				
4.1 Where Council has an internal audit function: <ul style="list-style-type: none"> <li>• undertake a review of its charter and annual work plan and outcomes from its past work. Examine whether identified matters have been appropriately addressed;</li> <li>• if no formal internal audit function exists then explore whether such a service could be cost-effectively provided (e.g. through an external service provider, possibly in conjunction with other Councils).</li> </ul>		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>
4.2 Examine whether the Council has developed a formal policy and associated arrangements for exercising its powers to initiate efficiency and economy audits e.g. <ul style="list-style-type: none"> <li>• whether there is an objectively developed and strategically prioritised schedule of efficiency and economy audits;</li> <li>• whether it is the responsibility of the Internal Audit function to manage, or some other management arrangements are in place;</li> <li>• whether the Audit Committee itself should manage or just provide comment.</li> </ul> The Audit Committee should provide advice to Council on this issue.		<i>[Include details of recommendations for management of efficiency and economy audits.]</i>		

<b>Activity</b>	<b>Timeframe</b> <i>[Record start &amp; end month.]</i>	<b>Current Status / Outcomes / Benefits Achieved</b> <i>[Update for each meeting.]</i>	<b>Date Completed</b> <i>[month.]</i>	<b>Follow-up Action</b> <i>[Identify activities to be added to subsequent work program.]</i>
4.3 The Audit Committee should: <ul style="list-style-type: none"> <li>• keep the operations of the internal audit function (where it exists) under review including approving its annual work program, and monitoring its independence and performance and provide feedback as appropriate;</li> <li>• take internal audit plans and work outcomes into account in its own decision-making and work program updates.</li> </ul>		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>
4.4 Having regard to results of its own work program and the Council's available resources, risks and anticipated benefits and costs, the Audit Committee should identify whether there are key functions where it might recommend that an efficiency and economy audit be performed.		<i>[Include details of recommended efficiency and economy audits.]</i>		<i>[Review outcomes of efficiency and economy audits undertaken.]</i>
<b>5 External audit</b>				
5.1 Meet with the Council's external auditor to: <ul style="list-style-type: none"> <li>• invite presentation of his/her audit methodology and risk assessments within the audit plan;</li> <li>• discuss any qualifications raised in the most recent audit or comments made in the accompanying audit management letter;</li> <li>• assess the appropriateness of the proposed Council response to matters so raised; and,</li> <li>• invite comment on the financial systems and affairs of the Council having regard to comparable benchmarks.</li> </ul>		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>

<b>Activity</b>	<b>Timeframe</b> <i>[Record start &amp; end month.]</i>	<b>Current Status / Outcomes / Benefits Achieved</b> <i>[Update for each meeting.]</i>	<b>Date Completed</b> <i>month.]</i>	<b>Follow-up Action</b> <i>[Identify activities to be added to subsequent work program.]</i>
5.2 Ensure that appointment arrangements for the external auditor conform with legislation.		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>
5.3 Ensure compliance with regulation 22 of the <a href="#"><i>LG (Financial Management) Regulations 2011</i></a> which prevent a Council from engaging its auditor to provide any services to the Council outside the scope of the auditor's functions under the <a href="#"><i>Local Government Act 1999</i></a> .		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>
5.4 Keep oversight of the Council's relationship with its external auditor and develop an appropriate timeframe to address all matters requiring consideration in the appointment/re-appointment of the external auditor and manage this process when it falls due <i>[note: section 128 requires the Council's external auditor to be rotated after no more than five years]</i> .		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>
<b>6 Reporting</b>				
6.1 Ensure that significant, urgent matters identified through the work program are formally and promptly reported to Council.		<i>[Include details of matters reported to Council.]</i>		<i>[Review Council's response to matters reported.]</i>

<b>Activity</b>	<b>Timeframe</b> <i>[Record start &amp; end month.]</i>	<b>Current Status / Outcomes / Benefits Achieved</b> <i>[Update for each meeting.]</i>	<b>Date Completed</b> <i>[month.]</i>	<b>Follow-up Action</b> <i>[Identify activities to be added to subsequent work program.]</i>
6.2 Report annually to Council; <ul style="list-style-type: none"> <li>• outlining outputs relative to the Audit Committee's work program and the results of a self-assessment of performance for the preceding period including whether it believes any changes to its charter are appropriate;</li> <li>• outlining any identified training needs;</li> <li>• advising future work program proposals; and,</li> <li>• invite comment from the Council on all of the above.</li> </ul>		<i>[Include details of report.]</i>		<i>[Review Council's response to report.]</i>
<b>7 Other matters</b>				
7.1 Review, and where warranted suggest improvements in, the formats of budget, budget reviews, and actual financial performance information reported to the Council to ensure they: <ul style="list-style-type: none"> <li>• are succinct, easy to follow and pitched with a strategic focus;</li> <li>• are based on accrual accounting information and include the material required by Regulations 7, 9 and 10 of the <a href="#">LG (Financial Management) Regulations 2011</a>; and,</li> <li>• incorporate key financial sustainability information including comparison of revised forecasts and actual results, compared with budget against targets (where they have been set by Council) for sector-endorsed financial indicators.</li> </ul>		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>

Activity	Timeframe <i>[Record start &amp; end month.]</i>	Current Status / Outcomes / Benefits Achieved <i>[Update for each meeting.]</i>	Date Completed <i>month.]</i>	Follow-up Action <i>[Identify activities to be added to subsequent work program.]</i>
<p>7.2 Review the Council's financial governance arrangements and their effectiveness including:</p> <ul style="list-style-type: none"> <li>• the processes in place to ensure;               <ul style="list-style-type: none"> <li>○ all Council Members and the executive team have appropriate knowledge of key financial governance principles, issues and reporting tools in the context of Local Government financial sustainability; and,</li> <li>○ where warranted, existing knowledge and skills are augmented with locally appropriate training and support;</li> </ul> </li> <li>• the appropriateness of existing strategic financial decision-making models and processes underpinning Council's long-term financial plan (or assist with its development if necessary) and annual business plan;</li> <li>• the appropriateness of targets established by Council for sector-endorsed Local Government Financial Indicators having regard to <u>Local Government Financial Sustainability Information Paper No. 9: Local Government Financial Indicators</u> at <a href="http://www.lga.sa.gov.au/goto/fsp">http://www.lga.sa.gov.au/goto/fsp</a> (or assist with the development of these targets as necessary); and,</li> <li>• the appropriateness of the range and content of Council's financial policies and practices (and in particular in regard to treasury management having regard to <u>Local Government Financial Sustainability Information Paper No. 15: Treasury Management</u>) at <a href="http://www.lga.sa.gov.au/goto/fsp">http://www.lga.sa.gov.au/goto/fsp</a>.</li> </ul>		<p><i>[Include details of any recommendations arising.]</i></p>		<p><i>[Review progress in addressing recommendations made.]</i></p>

<b>Activity</b>	<b>Timeframe</b> <i>[Record start &amp; end month.]</i>	<b>Current Status / Outcomes / Benefits Achieved</b> <i>[Update for each meeting.]</i>	<b>Date Completed</b> <i>[month.]</i>	<b>Follow-up Action</b> <i>[Identify activities to be added to subsequent work program.]</i>
7.3 Comment on the draft annual business plan prior to its formal consideration for adoption by Council, particularly in terms of consistency with Council's strategic management plans, recognising that Council is responsible and accountable for policy positions and service level decisions but mindful also that the Audit Committee has responsibilities to ensure Council is aware of the impact on ongoing financial sustainability of its proposals.		<i>[Include details of comments made.]</i>		<i>[Review Council's response to comments made.]</i>
7.4 The Audit Committee should satisfy itself regarding the: <ul style="list-style-type: none"> <li>• consistency of Council's strategic plan with its long-term financial plan;</li> <li>• consistency of Council's long-term financial plan with its infrastructure and asset management plan (I&amp;AMP);</li> <li>• soundness of the I&amp;AMP; e.g. Is it supported by engineering and other professional assessments regarding the condition of Council's infrastructure assets?</li> <li>• likely impact on Council's service levels and standards, and ongoing financial sustainability of implementation of its suite of strategic management plans.</li> </ul>		<i>[Include details of any recommendations arising.]</i>		<i>[Review progress in addressing recommendations made.]</i>

**Attachment 3: Model Audit Committee Annual Report to Council**

**[Council Name] Audit Committee Report for [20xx-yy]**

This report presents a summary of the [Council Name] Audit Committee's activities undertaken and recommendations made during the [20xx-yy] financial year. It includes a review of the Committee's Terms of Reference and a proposed work plan for the [20yy-zz] year.

**Conduct of Meetings**

The Committee met on [number] occasions during [20xx-yy] with the following attendance:

<b>Date</b>	<b>No of Members Attending</b>
[date]	[number]
[date]	[number]
[date]	[number]
[date]	[number]
[date]	[number]
[etc.]	[etc.]

<b>Committee Member</b>	<b>No of Meetings Attended</b>
[name]	[number]
[name]	[number]
[name]	[number]
[name]	[number]
[name]	[number]
[name]	[number]
[etc.]	[etc.]

**Committee Activities**

The following table sets out the principal issues addressed by the Committee during [20xx-yy]:

<b>Principal Issues Examined</b>	<b>Comment/Status</b>	<b>Recommendations to Council</b>
[issue e.g. issues relating to: • published financial information; • accounting treatments; • asset valuation and depreciation; • internal controls and risk management systems; • internal audit; • external audit;	[description]	[description]

• <i>other compliance issues.]</i>		
<i>[issue]</i>	<i>[description]</i>	<i>[description]</i>
<i>[issue]</i>	<i>[description]</i>	<i>[description]</i>
<i>[issue]</i>	<i>[description]</i>	<i>[description]</i>
<i>[issue]</i>	<i>[description]</i>	<i>[description]</i>
<i>[issue]</i>	<i>[description]</i>	<i>[description]</i>
<i>[etc.]</i>	<i>[etc.]</i>	<i>[etc.]</i>

During *[20xx-yy]* Committee members attended the following training courses/sessions:

<b>Training Course/Session</b>	<b>Date(s)</b>	<b>Provider</b>	<b>Members Attending</b>
<i>[title e.g. Financial Sustainability courses offered by the LGA Education and Training Service]</i>	<i>[date]</i>	<i>[organisation e.g. LGA Education and Training Service]</i>	<i>[names]</i>
<i>[title]</i>	<i>[date]</i>	<i>[organisation]</i>	<i>[names]</i>
<i>[title]</i>	<i>[date]</i>	<i>[organisation]</i>	<i>[names]</i>
<i>[title]</i>	<i>[date]</i>	<i>[organisation]</i>	<i>[names]</i>
<i>[title]</i>	<i>[date]</i>	<i>[organisation]</i>	<i>[names]</i>
<i>[title]</i>	<i>[date]</i>	<i>[organisation]</i>	<i>[names]</i>
<i>[etc.]</i>	<i>[etc.]</i>	<i>[etc.]</i>	<i>[etc.]</i>

### **Audit Committee Evaluation**

During *[month 20yy]* the Committee undertook a self-assessment of its Terms of Reference and its own performance of these. This self-assessment was undertaken in consultation with all Committee members and took account of factors such as:

- the Committee's work program;
- the Committee's operating environment;
- the stage of maturity of the Committee;
- Council's strategic directions;
- Council's risk and control environment;
- current and emerging trends and factors;
- the outcomes of previous self-assessments.

The Committee's comments and recommendations resulting from its examination of its Terms of Reference are summarised in the following table.

<b>ToR Item</b>	<b>Comment(s)</b>	<b>Recommendation(s)</b>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[etc.]</i>	<i>[etc.]</i>	<i>[etc.]</i>

The Committee *[is satisfied that its current Terms of Reference remain appropriate or recommends that Council amend its Terms of Reference in line with the recommendations above].*

A summary of the conclusions of the Committee's self-assessment of its own performance are summarised below.

<b>Issue</b>	<b>Comment(s)</b>	<b>Recommendation(s)</b>
<p><i>[description            e.g. the Committee may make comments on issues such as:</i></p> <ul style="list-style-type: none"> <li><i>• the clarity of its role and purpose;</i></li> <li><i>• its capacity to operate independently;</i></li> <li><i>• the expertise and experience of its members including training available;</i></li> <li><i>• the Committee members' understanding of the Council, Local Government sector and external issues;</i></li> <li><i>• meeting operation – frequency, length, agenda papers, follow-up of outstanding issues etc;</i></li> <li><i>• resources available to the Committee;</i></li> <li><i>• the Committee's working relationship with Council and the senior management team;</i></li> <li><i>• the Committee members' understanding of financial indicators (and targets for these) being used to assess the Council's performance;</i></li> <li><i>• the appropriateness of its work program;</i></li> <li><i>• the Committee's access to appropriate Council information;</i></li> <li><i>• the extent to which the Committee's advice is contributing to the effective operation of the Council;</i></li> <li><i>• etc.]</i> </li></ul>	<p><i>[description]</i></p>	<p><i>[description]</i></p>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[description]</i>	<i>[description]</i>	<i>[description]</i>
<i>[etc.]</i>	<i>[etc.]</i>	<i>[etc.]</i>

Following from its self-assessment process the Committee recommends the following training/professional development for its members:

