



Financial Sustainability Program

Information Paper 19

Audit Committee Reporting

September 2008



Introduction

Audit committees play a critical role in the financial reporting framework of Councils. An audit committee provides advice to the Council by reviewing, monitoring and providing comment and recommendations on the various activities that comprise its financial reporting process. It also advises on issues such as the approach being adopted by Council 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. The Local Government Act requires that Councils have an audit committee.

LGA Financial Sustainability Information Paper 3 'Audit Committees' provides information on the establishment and structure of audit committees and includes a Model Terms of Reference for Audit Committees as an attachment. Information Paper 14 'Model Work Program for Council Audit Committees' provides guidance to Councils on the establishment of a work program for their audit committees and includes a Model Initial Work Program as an attachment.

One of the activities of an audit committee identified in Information Paper 14 is its annual reporting to Council. This information paper addresses this activity and presents a 'best practice' approach for Councils to adopt. The paper includes a Model Audit Committee Annual Report to Council at Attachment 1. Some audit committees may not, in the early stages of their operation, fully adopt the approach and template report included here however they are encouraged to progressively take up the recommendations in this paper.

Other Information papers have been, or will soon be, prepared on the following topics:

- Financial Sustainability
- An Overview of Audit Mechanisms
- Audit Committees
- Scope of External Audit - Audit Specification
- Efficiency and Economy Audits
- Infrastructure and Asset Management (Policy and Planning)
- Service Delivery Framework including the Role of Shared Services
- Long-term Financial Plans
- Local Government Financial Indicators
- Debt Management
- Governance in Local Government
- Targets for Local Government Financial Indicators
- Model Framework for Council Annual Business Plans
- Model Work Program for Council Audit Committees
- Treasury Management
- Long-term Financial Plan - A Model Format for Financial Information
- Depreciation and Related Issues
- *Financial Policies (currently being prepared)*
- *Funding Policies and Strategies (currently being prepared)*
- *Financial Governance (currently being prepared)*
- *A New Approach to State-Local Resourcing (currently being prepared)*

A number of manuals, guidelines, templates, technical definitions, codes, standards and similar documents supporting this series of information papers are also being prepared by the LGA to provide practical assistance to Councils.

For an update on which information papers have now been completed or information about other documents and activities, including briefing and training sessions, please visit our website at: www.lga.sa.gov.au/goto/fsp.

What does the Act now require?

The Local Government Act requires that Councils have audit committees. This legislative change in early 2007 was supported by Local Government and addressed a recommendation of the LGA's Independent Inquiry into the Financial Sustainability of Local Government in South Australia.

The principal functions and extent of authority for an audit committee are set out in Section 126 (4) of the Local Government Act as follows:

- (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.'*

Information Papers 3 and 14 describe the monitoring, reviewing and reporting activities that most audit committees undertake in relation to:

- financial reporting;
- internal controls and risk management systems;
- whistleblowing;
- internal audit;
- external audit; and,
- other matters.

Reporting responsibilities

Audit committees are like any other Council committee and are subject to the requirements of the Local Government Act at Section 41 (for example, reporting and accountability). The duties at Section 62 and the obligations of Sections 73 and 74 apply to its members.

In relation to reporting most audit committee terms of reference require the committee to:

- 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; and
- at least once a year, review its own performance and terms of reference to ensure it is operating at maximum effectiveness and recommend changes it considers necessary to the Council for approval.

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 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.

Annual Reporting to Council

The audit committee should provide an annual report to the Council.

The audit committee's 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 and position;
- 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.

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 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.

Attachment 1 provides a Model Audit Committee Annual Report to Council which includes the results of the audit committee's self-assessment performance review.

What are the issues for Councils?

A Council's audit committee has a key role in its governance framework.

One of its primary functions is to provide suggestions and recommendations to the Council about actions that might be taken to enhance its financial governance. It plays an important part in the review of draft financial reports and financial management systems and should provide constructive comment to Council on these.

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 annual report should also provide a review of its own operation.

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Attachment 1: 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:

Date	No of Members Attending
[date]	[number]
[date]	[number]
[date]	[number]
[date]	[number]
[date]	[number]
[date]	[number]
[etc.]	[etc.]

Committee Member	No of Meetings Attended
[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]:

Principal Issues Examined	Comment/Status	Recommendations to Council
[issue e.g. issues relating to: <ul style="list-style-type: none"> • published financial information; • accounting treatments; • asset valuation and depreciation; • internal controls and risk management systems; • internal audit; • external audit; • other compliance issues.] 	[description]	[description]

[issue]	[description]	[description]
[issue]	[description]	[description]
[issue]	[description]	[description]
[issue]	[description]	[description]
[issue]	[description]	[description]
[etc.]	[etc.]	[etc.]

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

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

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.

ToR Item	Comment(s)	Recommendation(s)
[description]	[description]	[description]
[description]	[description]	[description]
[description]	[description]	[description]
[description]	[description]	[description]
[description]	[description]	[description]
[description]	[description]	[description]
[etc.]	[etc.]	[etc.]

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.

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

